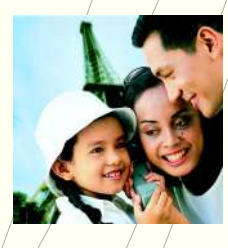
Annual Report **2002**

# Creating A Momentum of Growth



- **Strong Performance Despite Challenging Year**
- **Maintain Growth Momentum in Cellular Business**
- **Transformation Plan and Growth Opportunity**

INDOSAT

## CONTENTS


Page

1 Indosat in Brief
2 "Spirit of Indonesia"
4 Our Journey Continues
6 The Year in Highlights
8 Financial Highlights
10 Stock Highlights
11 Business Highlights
12 Indosat and Affiliated Companies
14 Message from the President Commissioner
16 Report of the President Director
20 Good Corporate Governance
- 24 Board of Commissioners
- 26 Board of Directors
- 28 Audit Committee
- 28 Audit Committee Report

30 Cellular Service
34 Fixed Telecommunications Service
38 Multimedia, Data Communication & Internet (MIDI) Service
42 Network Infrastructure and Access
44 Human Resources Development
46 Indosat and the Community
47 Operating and Financial Review

Audited Consolidated Financial Statements and Independent Auditor's Report

Inside Back Cover : Information for Shareholders

# Indosat in Brief

PT Indonesian Satellite Corporation Tbk. (Indosat) was established in 1967 as a foreign investment company to provide international telecommunications services in Indonesia, commencing its operations in 1969 with the inauguration of the Jatiluhur earth station. In 1980, the Government of Indonesia acquired all of the shares of Indosat, which then became a State-Owned Enterprise (SOE). In 1994, Indosat listed its shares on the Jakarta Stock Exchange, the Surabaya Stock Exchange and the New York Stock Exchange, achieving the distinction of being the first SOE to be listed overseas.

From 1969 until 1990, Indosat provided switched and non-switched international telecommunications services, including international direct dialling telephony, international data network communications, international leased lines and international television transmission services.

In the mid 90s, in line with the globally evolving trends of converging telecommunications, information and media industries, Indosat has sought opportunities to develop its competencies in information technology and multimedia, in addition to other international telecommunications services, through domestic and international ventures.

Entering the 21st century and in keeping with the global trends, the Government of Indonesia decided to deregulate the national telecommunications sector, opening it up to free market competition. Starting from 2001, all cross-ownerships between Indosat and the domestic telecommunications provider, Telkom, have been eliminated, whereas the exclusivity rights of the two telecommunications service providers will be terminated in several stages.

Indosat pursued a main course of development of its cellular business starting in mid 90s, and in 2001 established PT Indosat Multi Media Mobile (IM3), followed by acquiring full control of PT Satelit Palapa Indonesia, making IndosatGroup the second largest cellular operator in Indonesia.

At the end of 2002, the Government of Indonesia undertook a 41.94% divestment of its shares in Indosat to Singapore Technologies Telemedia Pte. Ltd. through the holding company of Indonesia Communications Limited. As such, Indosat is once again a foreign investment company, offering full fledged, integrated network and services provider.

PT Indonesian Satellite Corporation Tbk
Jl. Medan Merdeka Barat No. 21
Jakarta, 10110
Indonesia
Tel : [62-21] 3000 3001, 3000 3002
Fax : [62-21] 380 4045, 381 2617

investor@indosat.com
www.indosat.com

Independent Auditors
Prasetio, Sarwoko & Sandjaja
(Member of Ernst & Young Global)

Shareholders composition
as at 31 December 2002

| | |
|---|---|
| Government of Indonesia | 15.00% |
| Indonesia Communications Limited | 41.94% |
| Public | 43.06% |

Ticker Code
ISAT (Jakarta Stock Exchange and Surabaya Stock Exchange)
IIT (New York Stock Exchange)

# "Spirit of Indonesia"

[In these challenging times, Indosat remains solidly entrenched in the roots and "Spirit of Indonesia" that have shaped its successes for over three decades. It relies on the proud national heritage, shared values and diversities that have long been the strength of Indosat as well as the people and nation of Indonesia.]

Ever since the deregulation of the telecommunications sector in Indonesia, the industry has developed at a rapid pace in line with increasing open market competition, and the growing variety and choices of telecommunications services available to the customers.

Since centuries past, Indonesia is well-known as the "Pearls of the Equator". The charm and appeal of the world's largest archipelago have drawn visitors from all corners of the world.

The influx of visitors and businesses to Indonesia increased dramatically with the re-enactment of the Foreign Investment Law in 1967. At that time, Indosat was one of the pioneering foreign investment ventures established as part of the measures undertaken to help the recovery of the national economy.

Over the next three decades, Indonesia experienced a rapid industrial and economic growth unprecedented in its history. At the height of the "Asian Miracle" era during the 80s through the mid-90s, the Indonesian economy grew at an average annual rate of 7%.

Throughout this, telecommunications played a key and vital role. Indosat was able to become one of the leading corporations in Indonesia, ranking among the country's top ten largest tax payers list, year after year.

# *Indonesia's Growing Telecommunications Sector*

Then came the Asian financial crisis of 1997. Almost six years on, today, the Indonesian economy has yet to see a full recovery.

Faced with somewhat familiar economic conditions as it had in the mid-60s, the Government of Indonesia took several initiatives to accelerate economic growth, including deregulating the telecommunications sector, divesting state assets in state-owned enterprises (SOE), as well as opening the door for the return of foreign investments to Indonesia.

The enactment of the Telecommunications Law No. 36 of 1999 marked the beginning of the deregulation of Indonesia's telecommunications sector. Since then, the domestic telecommunications market has shown rapid growth which, in turn, has drawn foreign investments back to Indonesia, at least in the telecommunications sector.

In early 2003, Indosat once again became a Foreign Investment Company.

## Growth Opportunities

One of the main reasons behind the liberalisation of the Indonesian telecommunications sector is its relatively low telephone density rate, even compared to ASEAN countries. Today, Indonesia has a telephone line density of approximately 3.7%, or less than four telephone lines per 100 people, far below that of Singapore (47.1%), Japan (59.7%) or the United States (66.5%).

By opening the telecommunications sector to broader participation from the private sector and foreign investments, Indonesia expects to have an open and dynamic market leading to improved services and quality of telecommunications in general.

## The Competitive Factor

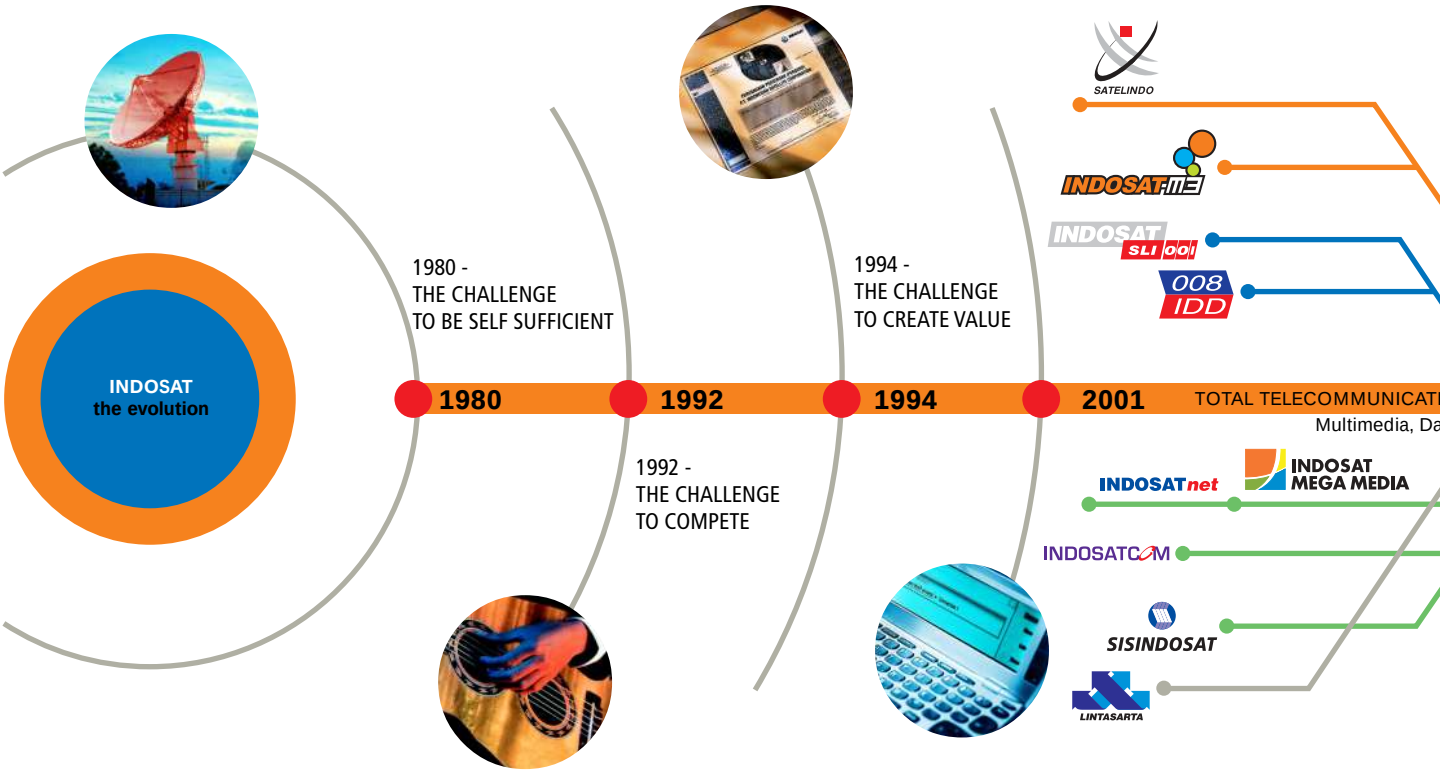
The decision of the Government of Indonesia early on to institute an open market competition with respect to the cellular industry has provided a good learning experience. Due to the dynamic market competition, within just a decade, the number of cellular subscribers in the country has surpassed the total number of fixed telephone lines that have been installed in the country since Indonesia's independence.

As at year-end 2002, there were more than 10 million cellular subscribers in Indonesia, exceeding the number of fixed telephone subscribers at approximately 7.7 million subscribers. At this rate, one can assume that the growth of cellular will outpace that of fixed lines increasingly in the future.

As a full network and services provider, Indosat is ideally placed to capitalise on two key issues currently shaping the telecommunications industry, nationally as well as globally. These are the continuing global trend towards industry deregulation, and technology convergencies and breakthroughs which enable the development of more economical, effective and efficient telecommunications networks and services that benefit new entrants such as Indosat.

These developments provide a clear opportunity for Indosat to contribute more in the ongoing evolution of Indonesia's telecommunications sector.

# Our Journey Continues

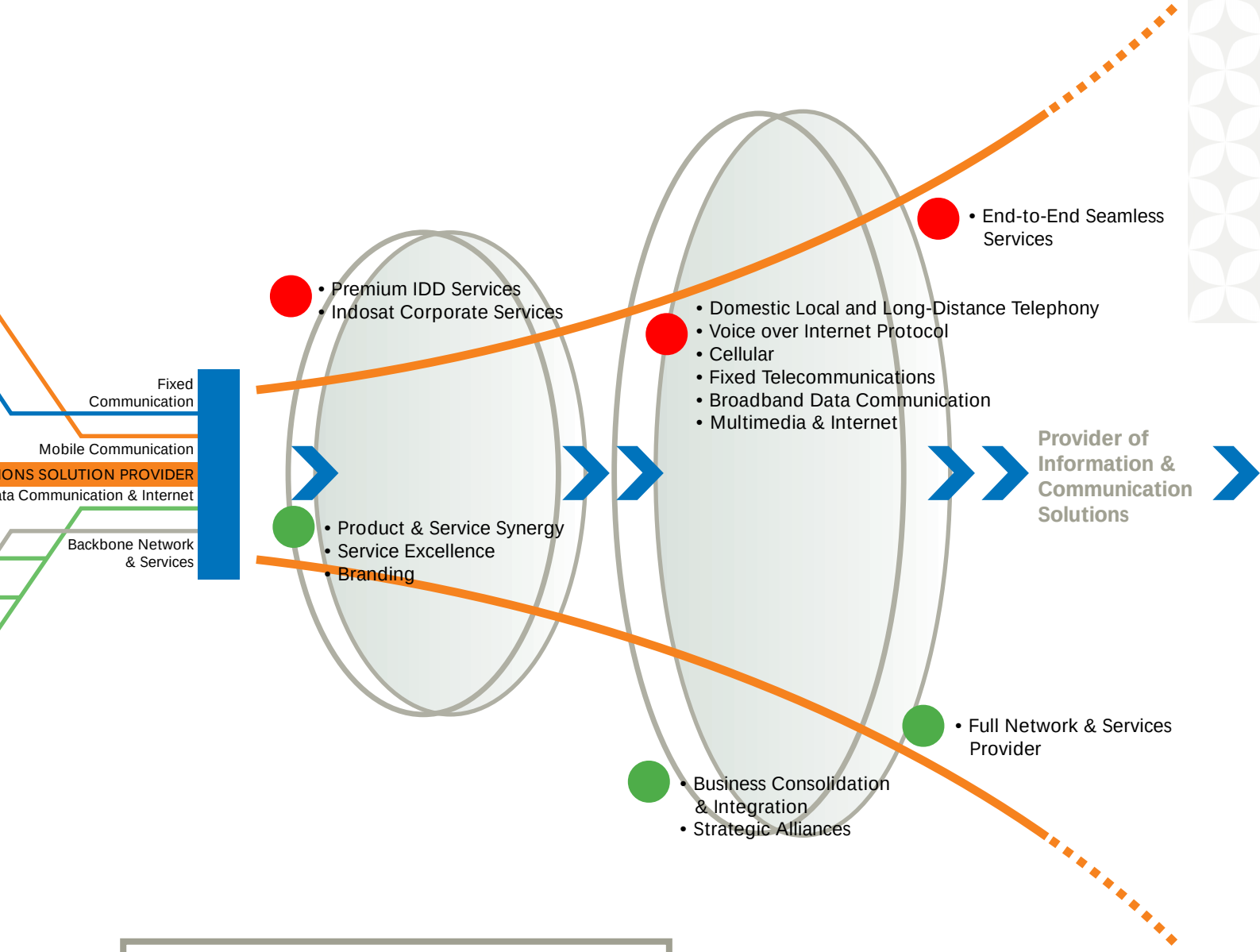



[To be the provider of choice for information and communication solutions.] Vision

## Mission:

- To provide and develop innovative and quality products, services and solutions which offer the best value to our customers.
- To grow shareholder value continuously.
- To provide better quality of life to the stakeholders.

## SERVICE EVOLUTION




## BUSINESS DEVELOPMENT

### Strategy:

- Integrate and develop cellular services to pursue growing cellular business opportunities in Indonesia.
- Maintain IDD business and deploy fixed access network selectively in prospective domestic markets.
- Nurture MIDI business growth.

### Core Values:

- Integrity
- Teamwork
- Commitment to Excellence
- Partnership
- Customer Focused

# The Year in Highlights

## January

**15** Indosat provided the Indosat Indonesia Direct 1-800-62 service from Saudi Arabia and provided information on this service at every embarkation center for the Haj pilgrimage. Together with the Department of Religious Affairs of the Republic of Indonesia, Indosat also provided a website, www.informasi.haji.com, for news updates on the pilgrimage.

## February

**01** Indosat and Telkom announced the cancellation of the Conditional Sales and Purchase Agreement for KSO IV in Central Java and Yogyakarta due to the failure to meet certain conditions attached to the agreement.

## March

**26** Indosat launched the INDOSAT MULTIMEDIA ACCESS, Indonesia's first network communications system for voice, data and video transmission using IP-based, VSAT satellite connections. The use of satellite communications system makes this service ideal for corporate users who need multimedia-capable communications network with national coverage able to reach even the most remote locations.

## July

**19** Trial calls of the IndosatPhone local and long-distance telephony service were made to Surabaya, Medan and Batam, the sites of Indosat's international gateway facilities which now also serve as local exchanges.

## August

**01** Commercial launch of IndosatPhone.

**19** Network co-location marked a synergy between Satelindo and IM3, allowing IM3 to offer nationwide roaming capability by using Satelindo's networks.

**28** Indosat hosted the Pacific Partners Meeting of 2002 in Yogyakarta.

## September

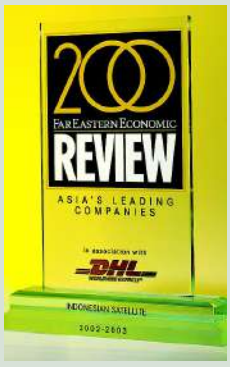
**04** Satelindo launched the Matrix F2 (Family and Friends) programme offering a convenient solution for affordable Matrix subscription for groups of family members and friends.

**26** In commemoration of Hari Bhakti Postel, Indosat launched GlobalSave, a VoIP-based telephone service, which allows domestic long-distance and international calls at economical rates.

# Awards and Recognition

>>
"Asia's Leading Companies" – **Far Eastern Economic Review - DHL.**

<<
"A Leader in Corporate Governance, Indonesia" – **The Asset.**



## April

**12** The M3 Friends service package is launched by Indosat Multi Media Mobile (IM3) at Hambalang, Sentul. M3 Friends provides IM3 Bright post-paid subscribers with the benefit of group subscriptions between 2 up to 7 people.

## May

**06** Marking a historic date for the synergy of the Indosat group of companies towards becoming a full network and services provider, Indosat and six subsidiary companies (Satelindo, IndosatM3, Lintasarta, IndosatM2, Sisindosat, and IndosatCom) inaugurated the new brand of "IndosatGroup" and announces its new vision of customer-focused service. The IndosatGroup is represented as a single entity at the IITELMIT Expo in Jakarta on 7-11 May 2002.

## June

**20** The Annual General Meeting and Extraordinary General Meeting of Shareholders of Indosat approved the full acquisition of Satelindo through the purchase of DeTeAsia 25% shareholding in Satelindo, and additional capital injection in Satelindo. The meeting also approved the change in the members of the Board of Commissioners and Board of Directors of Satelindo.

## October

**02** Public Expose and due diligence of Indosat Bond II and the Indosat Syariah Mudharabah Bond, the first syariah bonds in Indonesia.

## November

**08** Indosat Bond II and the Indosat Syariah Mudharabah Bond were listed on the Surabaya Stock Exchange.

**12** The Indosat Apressia, a customer appreciation programme, awarded prizes to loyal customers of Indosat's IDD 001, Indonesia Direct and Operator 101/104 international telephone services.

## December

**27** The Extraordinary General Meeting of Shareholders (EGMS) of Indosat approved the proposed change of the Company's Article of Association, change of Board of Commissioners and Board of Directors composition and the approval in principle of ESOP related to Government's divestment.

**31** PT Indosatcom Adimarga merged into PT Indosat Mega Media to enhance efficiency.

"The Fourth Best e-Business Implementation in Telecommunications Category" – **Warta Ekonomi Magazine.**

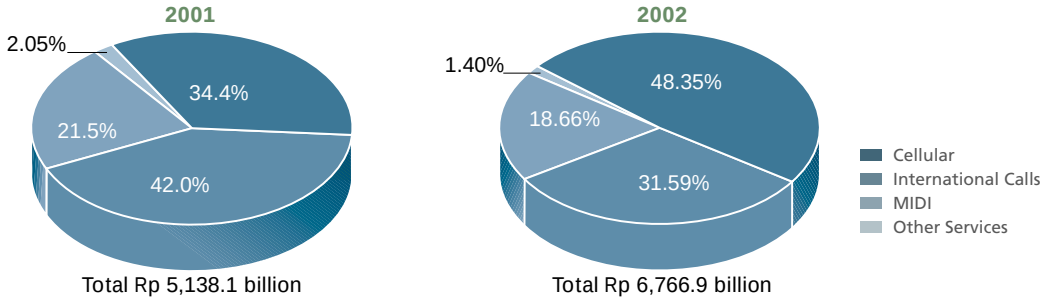
The Indonesian Most Admired Companies Award – The Co-Winner Corporate Image in Telecommunications Category – **Tempo - Frontier.**

<< The quality assurance management system of Indosat has met the standards of **ISO 9001**.

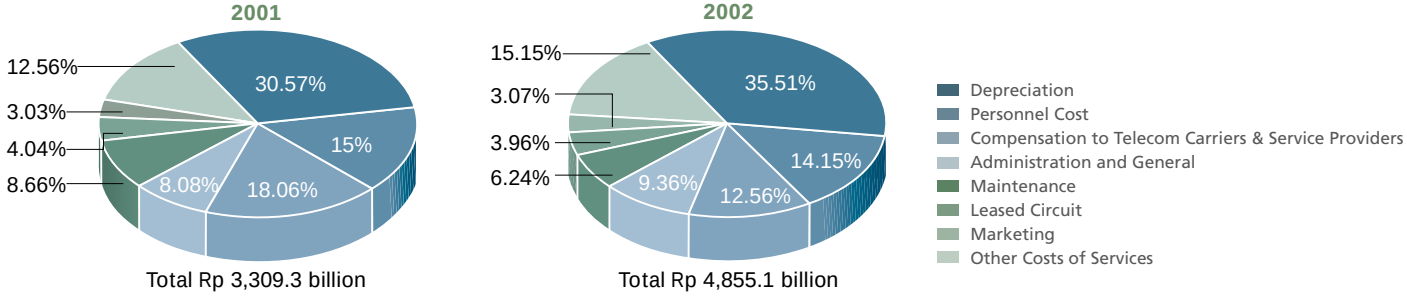
# Financial Highlights

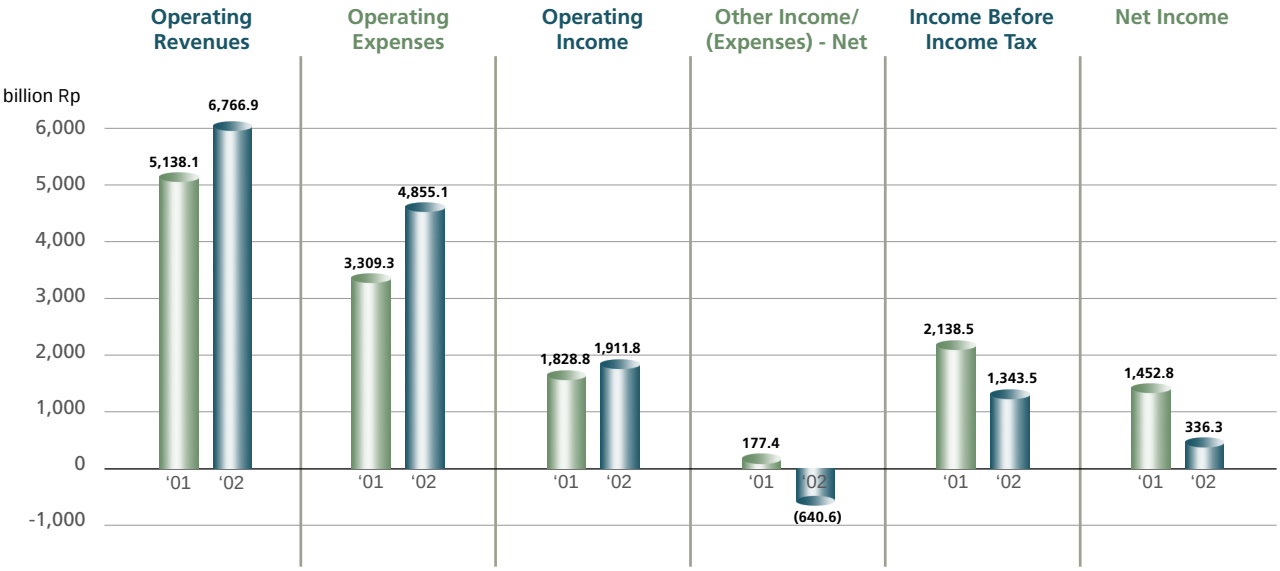
| In billions of Rupiah (unless stated otherwise) | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **STATEMENTS OF INCOME** | | | | | |
| Operating Revenues | **6,766.9** | 5,138.1 | 2,992.2 | 3,004.7 | 2,108.2 |
| Operating Expenses | **4,855.1** | 3,309.3 | 1,516.9 | 1,366.0 | 1,001.1 |
| Operating Income | **1,911.8** | 1,828.8 | 1,475.3 | 1,638.7 | 1,107.1 |
| Other Income (Expenses) - Net | **(640.6)** | 177.4 | 794.3 | (21.9) | 337.4 |
| Equity in Net Income of Associated Companies | **72.3** | 132.3 | 83.5 | 594.7 | 89.3 |
| Income Before Income Tax | **1,343.5** | 2,138.5 | 2,353.1 | 2,211.5 | 1,533.8 |
| Income Tax Expenses - Net | **774.3** | 412.2 | 687.7 | 599.0 | 391.6 |
| Income Before Minority Interest in Net Income of Subsidiaries and Preacquisition Income | **569.3** | 1,726.3 | 1,665.4 | 1,612.5 | 1,142.2 |
| Minority Interest in Net Loss (Income) of Subsidiaries | **(27.1)** | (273.5) | (23.3) | (17.7) | 0.2 |
| Preacquisition Income | **205.9** | - | - | - | - |
| Net Income | **336.3** | 1,452.8 | 1,642.1 | 1,594.8 | 1,142.4 |
| Shares Outstanding (in millions of Shares) | **1,035.5** | 1,035.5 | 1,035.5 | 1,035.5 | 1,035.5 |
| Basic Earnings per Share (in Rupiah) | **324.7** | 1,403.0 | 1,585.8 | 1,540.1 | 1,103.3 |
| Dividends Declared per Share (in Rupiah) | **n.a** | 561.2 | 610.1 | 666.0 | 425.1 |
| EBITDA | **3,635.7** | 2,840.4 | 1,665.1 | 1,791.3 | 1,205.6 |
| **BALANCE SHEETS** | | | | | |
| Total Assets | **22,002.4** | 22,348.7 | 7,314.5 | 6,152.2 | 4,879.0 |
| Property and Equipment - Net | **11,759.3** | 9,468.9 | 1,524.4 | 1,462.5 | 1,083.4 |
| Working Capital | **1,957.7** | 3,323.9 | 2,936.9 | 2,157.6 | 1,419.1 |
| Total Liabilities | **11,261.6** | 11,370.0 | 3,863.2 | 3,672.2 | 1,052.7 |
| Minority Interest | **137.4** | 239.0 | 92.4 | 79.1 | 8.9 |
| Total Stockholders' Equity | **10,603.4** | 10,739.7 | 3,358.9 | 2,400.9 | 3,817.4 |

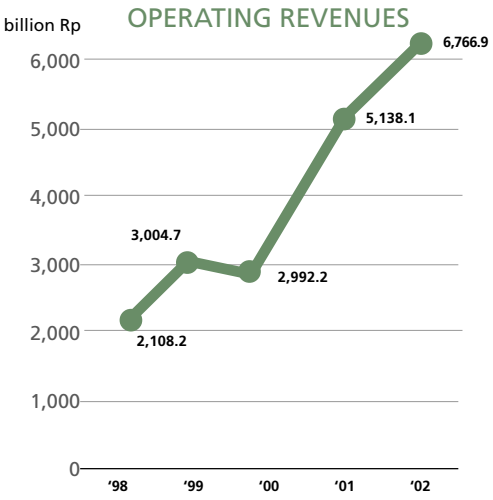
## OPERATING REVENUES by Business Segments

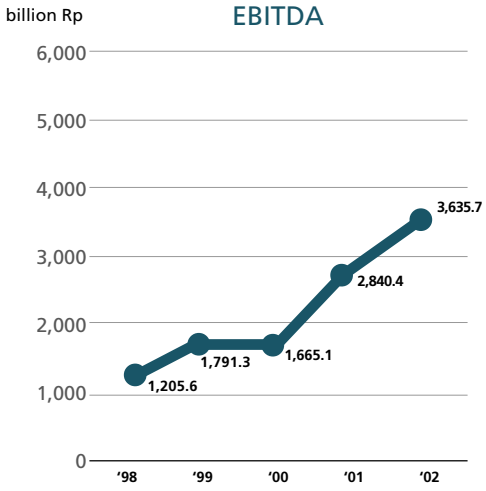



## OPERATING EXPENSES by Accounts






| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **OPERATING RATIOS (%)** | | | | | |
| Operating Income to Operating Revenues | **28.25** | 35.59 | 49.30 | 54.54 | 52.51 |
| Operating Income to Stockholder's Equity | **18.03** | 17.03 | 43.92 | 68.25 | 29.00 |
| Operating Income to Total Assets | **8.69** | 8.18 | 20.17 | 26.64 | 22.69 |
| EBITDA Margin | **61.40** | 70.10 | 84.90 | 85.20 | 89.10 |
| Net Profit Margin | **4.97** | 28.28 | 54.88 | 53.08 | 54.19 |
| Return on Equity | **3.17** | 13.53 | 48.89 | 25.92 | 29.93 |
| Return on Assets | **1.53** | 6.50 | 22.45 | 66.43 | 23.41 |
| **FINANCIAL RATIOS (%)** | | | | | |
| Current Ratio | **161.60** | 160.31 | 481.51 | 430.26 | 262.38 |
| Long term Debt to Equity Ratio | **76.19** | 54.55 | 92.10 | 125.74 | 4.68 |
| Total Liabilities to Total Assets | **51.81** | 51.94 | 54.08 | 60.98 | 21.76 |
| **DIVIDEND PER SHARE (Rupiah)** | | | | | |
| Final Phase I | **n.a** | 561.2 | 305.04 | 333.0 | 425.08 |
| Final Phase II | **n.a** | 0 | 305.04 | 333.0 | 0 |
| Total | **n.a** | 561.2 | 610.07 | 666.0 | 425.08 |
| Payment Date – Final Phase I | **n.a** | 29-Jul-02 | 20-Jun-01 | 09-Jun-00 | 05-Jul-99 |
| – Final Phase II | **n.a** | n.a. | 03-Dec-01 | 01-Nov-00 | n.a. |

# Stock Highlights

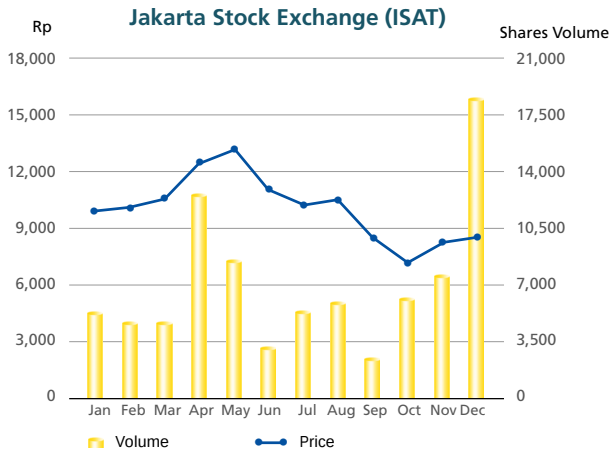
## QUARTERLY SHARE PRICE AT JAKARTA STOCK EXCHANGE (Rp)

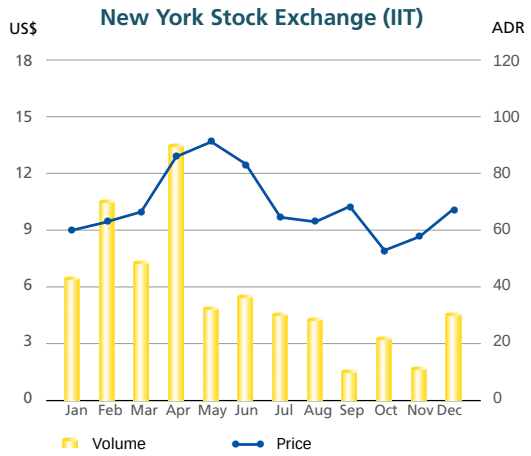
| | 2002 | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|
| Period | Highest | Lowest | Highest | Lowest | Highest | Lowest |
| First Quarter | 10,800 | 8,900 | 10,700 | 7,850 | 18,750 | 12,225 |
| Second Quarter | 13,650 | 10,450 | 10,650 | 7,700 | 12,950 | 8,850 |
| Third Quarter | 11,000 | 8,300 | 11,150 | 7,750 | 10,280 | 6,500 |
| Fourth Quarter | 9,300 | 6,400 | 9,450 | 7,300 | 9,450 | 6,500 |

## QUARTERLY SHARE PRICE AT NEW YORK STOCK EXCHANGE (US$) PER ADS*

| | 2002 | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|
| Period | Highest | Lowest | Highest | Lowest | Highest | Lowest |
| First Quarter | 10.94 | 8.52 | 12.20 | 7.17 | 24.50 | 16.63 |
| Second Quarter | 14.20 | 10.35 | 9.30 | 6.80 | 16.94 | 10.56 |
| Third Quarter | 12.20 | 9.06 | 11.32 | 7.90 | 11.38 | 7.69 |
| Fourth Quarter | 10.84 | 7.34 | 8.85 | 7.32 | 10.00 | 7.06 |

* 1 ADS consist of 10 shares

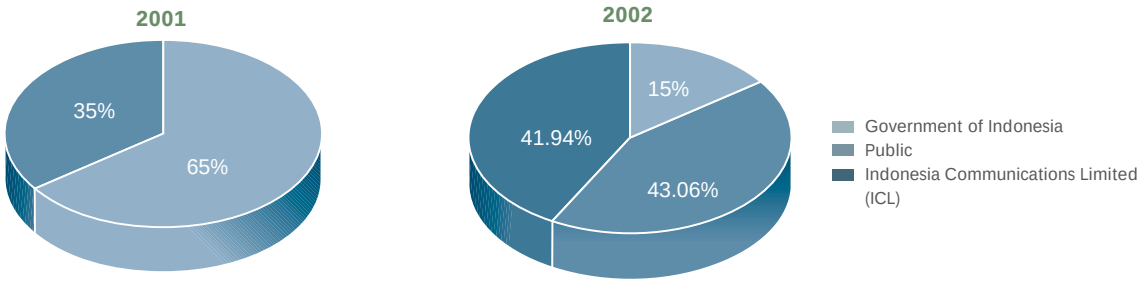


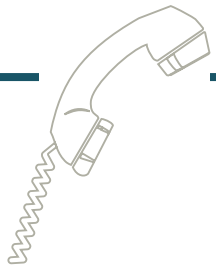

## SHARE PERFORMANCE

| | | Jakarta Stock Exchange | | | New York Stock Exchange (per ADS) | |
|---|---|---|---|---|---|---|
| | | 2002 | 2001 | | 2002 | 2001 |
| Highest | (Rp) | 13,650 | 11,150 | (US$) | 14.20 | 12.20 |
| Lowest | (Rp) | 6,400 | 7,300 | (US$) | 7.34 | 6.80 |
| At Year End | (Rp) | 9,250 | 9,450 | (US$) | 10.75 | 8.85 |
| Earnings per Share | (Rp) | 324.71 | 1,403 | (US$) | 0.36 | 1.35 |
| Dividend per Share | (Rp) | n.a. | 561.32 | (US$) | n.a. | 0.14 |
| Dividend Payout Ratio | (%) | n.a. | 0.4 | (%) | n.a. | 0.4 |
| Dividend Yield (Dividend per Share/ Year-end Share Price) | (%) | n.a. | 0,06 | (%) | n.a. | 0,02 |
| P/E Ratio (Year-end Share Price/Earning per Share) | | 28.5X | 6.7X | | 29.9X | 6.5X |

## SHAREHOLDERS COMPOSITION



# Business Highlights



## idd

| | Unit | 2002 | 2001 |
|---|---|---|---|
| Incoming Traffic | '000 minutes | 429,357 | 365,844 |
| Outgoing Traffic | '000 minutes | 289,324 | 316,246 |
| Total Traffic | '000 minutes | 718,681 | 682,090 |
| Incoming/Outgoing Ratio | | 1.48 | 1.16 |

## cellular

| | Unit | 2002 | 2001 |
|---|---|---|---|
| **Satelindo** | | | |
| Prepaid / Mentari | # of subscriber | 2,872,752 | 1,600,000 |
| Post Paid / Matrix | # of subscriber | 198,623 | 169,000 |
| No. of Subscriber | # of subscriber | 3,071,375 | 1,769,000 |
| ARPU - Prepaid | Rp | 89,658 | 118,000 |
| ARPU - Post Paid | Rp | 386,347 | 359,000 |
| ARPU - Blended | Rp | 113,681 | 149,000 |
| **IM3** | | | |
| Prepaid / Smart | # of subscriber | 468,321 | 143,000 |
| Post Paid / Bright | # of subscriber | 42,955 | 5,000 |
| No. of Subscriber | # of subscriber | 511,276 | 148,000 |
| ARPU - Blended | Rp | 102,144 | n.a |
| **Total Cellular** | **# of subscriber** | **3,582,651** | **1,917,000** |

ARPU : Average Revenue Per User

## midi

| | Unit | 2002 | 2001 |
|---|---|---|---|
| **Indosat** | | | |
| High Speed Leased Line | # of circuit | 1,392 | 1,134 |
| Frame Relay | # of ports | 642 | 631 |
| VSAT | # of circuit | 77 | 58 |
| **IndosatM2** | | | |
| Internet Dial-Up | # of subscriber | 23,361 | 47,000 |
| Internet Dedicated | # of circuit | 463 | 463 |
| **Lintasarta** | | | |
| High Speed Leased Line | # of link | 2,342 | 2,347 |
| Frame Relay | # of access | 3,014 | 2,229 |
| VSAT | # of terminal | | |
| - VSAT - NET/IP | | 475 | 233 |
| - VSAT - LINK | | 52 | 49 |
| Internet Dial-Up | # of subscriber | 2,430 | 2,902 |
| Internet Dedicated | # of link | 211 | 195 |
| **Satelindo** | | | |
| Satelit Transponder Leased | # of transponder | 20.9 | 20.9 |

## employee

| | Unit | 2002 | 2001 |
|---|---|---|---|
| Indosat | # of employee | 2,373 | 2,401 |
| Subsidiaries | # of employee | 3,883 | 3,430 |

# Indosat and Affiliated Companies

The Indosat Group currently consists of five wholly-owned or majority-owned subsidiaries, as well as several affiliated companies in which Indosat has less than 50% shareholding, as follows:

**PT Satelit Palapa Indonesia (Satelindo)**
Indosat owns 100% of Satelindo (directly and through PT Bimagraha Telekomindo) which primarily provides GSM 900 cellular service, IDD 008 service, and satellite transponder leasing. Satelindo is currently the second largest cellular operator in Indonesia.
Subsidiary companies: PT Satelindo International Finance B.V. and PT Satelindo Multimedia.

**PT Indosat Multi Media Mobile (IM3)**
IM3 is 99.94% owned by Indosat, and provides GSM 1800 cellular service with GPRS capabilities. It currently ranks fourth in the cellular services market in Indonesia.

**PT Aplikanusa Lintasarta (Lintasarta)**
Lintasarta is 69.46% owned by Indosat, and is engaged in the provision of high-speed data communications services and corporate network services. It pioneered in the development of the electronic banking transfer system in Indonesia including that of the ATM Bersama, Indonesia's first joint ATM network. Lintasarta is currently leading provider of data communications and corporate network services.
Subsidiary companies: PT Arthajasa and PT Swadarma Marga Inforindo (SMI).

**PT Indosat Mega Media (IndosatM2)**
IndosatM2 is 99.84% owned by Indosat, and engages in multimedia and Internet services, including Cable TV services, IP-based multimedia, and IP-based LAN & WAN network communications services. It is also one of the pioneers of MIDI services in Indonesia.
Subsidiary companies: PT Menara Jakarta, PT Yasawirya Indah Mega Media, and PT Multimedia Nusantara.

**PT Sisindosat Lintasbuana (Sisindosat)**
Sisindosat is 96.87% owned by Indosat, and is engaged in the provision of information technology (IT) development and integration services, IT software and IT training.
Subsidiary companies: PT Electronic Data Interchange Indonesia (EDI), PT Sistelindo Mitralintas, PT Graha Lintas Properti, PT Kalimaya Perkasa Finance, PT Asitelindo Data Buana and PT Intikom Telepersada.

Affiliated companies are those in which Indosat has less than 50% share ownership, as follows:

| | |
|---|---|
| PT Bimagraha Telekomindo | Bimagraha Telekomindo is a non-operating consolidating subsidiary company of which all of its shares are effectively held by Indosat. The company holds interest in Satelindo. |
| PT Mitra Global Telekomunikasi Indonesia (MGTI) | A consortium of Indosat, NTT of Japan, Telstra of Australia and several Indonesian private companies, MGTI currently provides telecommunications services in Central Java on behalf of Telkom, under a Joint Operating Scheme (KSO) agreement up to December 31, 2010. Indosat's share in MGTI is 30.55%. |
| PT Indoprima Mikroselindo (Primasel) | Indosat has a 17.33% stake in Primasel, a company engaged in providing telecommunications services based on Personal Handyphone Systems (PHS) technology for the East Java region. |
| PT Patra Telekomunikasi Indonesia (Patrakomindo) | Indosat owns 10% of Patrakomindo which is engaged in the design, installation, operation and maintenance of telecommunications system and facilities for the oil industry using VSAT technology. |
| PT Multi Media Asia Indonesia (M2A) | M2A is a joint venture between Indosat (26.67%) and PT Pasifik Satelit Nusantara (73.33%). The company is engaged in the M2A project, which will provide satellite-based multimedia services. |
| PT Datakom Asia | Datakom provides multimedia and broadcasting services in which Indosat owns 5% shares. |
| PT Yasawirya Tama Cipta (YTC) | YTC is multimedia design company engaged in the production of video and other audio-visual materials and TV programs. Indosat holds a 40% stake. |
| ASEAN Cableship Pte. Ltd. (ACPL) | ACPL is owned in equal shares (16.67%) by the international telecommunications entities of ASEAN, including Indosat. Engaged in providing services related to the repair and maintenance of submarine cables, it currently operates three chartered cable ships based in Singapore. |
| Acasia Communications Sdn. Bhd. (Acasia) | Indosat holds 16.74% share in Acasia, a joint venture of the leading telecommunications operators in the ASEAN region, including Indosat, as part of their commitment in the ASEAN Telecom Holdings Sdn. Bhd. Acasia is primarily engaged in corporate telecommunications and other related services. |
| ASEAN Telecom Holdings Sdn. Bhd. (ATH) | ATH is a company incorporated in Malaysia, and was founded in 1995 by the telecommunications carriers of the five member countries of ASEAN at that time, and is primarily engaged in providing corporate telecommunications and other related services. Indosat's share in ATH is 17.6%. |
| INTELSAT & INMARSAT | Indosat is a signatory to the worldwide satellite organisations, INTELSAT and INMARSAT, in which Indosat holds 0.34% and 0.40% interests, respectively. |
| ICO Global Communications (Holdings) Limited | ICO-GC is the owner and provider of the Inmarsat intermediate-circular-orbit satellite constellation currently under development. Indosat owns 0.87% interest in the Company. |
| Cambodian Indosat Telecommunication S.A. (Camintel) | Camintel is a joint venture between Indosat (49%) and the Kingdom of Cambodia (51%) to provide telecommunication services in Cambodia. |
| NSS (New Sky Satellite) | NSS provides satellite-based multimedia services which is owned by all signatories of INTELSAT of which Indosat is one. |

# Message from the President Commissioner

**Peter Seah Lim Huat**
President Commissioner

"Notwithstanding the challenging backdrop, Indosat was able to make significant progress in transforming itself into a world-class telecommunications provider"

Dear Shareowner,

2002 was a year of change and consolidation.

Changes and threats of economic downturn continued to confront Indonesia in 2002, many of these are driven by external factors. The global war on terrorism affected Indonesia directly with the tragic Bali bombing. The world economy remained weak mainly due to the continuing dismal performance in the telecommunications and information technology sectors. China continued to attract a high level of direct investment, putting pressure on Indonesia and other economies in Southeast Asia. Despite declining levels of foreign investment and global trade, Indonesia and Indosat were able to make steady progress.

Indonesia's overall performance, despite all odds, was better than many of its neighbours last year. The economy grew by 3.3 percent. The Indonesian Government managed to maintain a disciplined fiscal and monetary policy. External debt to GDP fell from 120 percent at the peak of the Financial Crisis to 70 percent by the end of 2002. Indonesia's budget deficit fell from 3.7 percent of GDP to 2.5 percent at the end of 2002. Inflation remains under control with signs of improvement.

The Indonesian Government successfully completed the consolidation in its cellular sector. Indosat and Telkom became the owner of Satelindo and Telkomsel, respectively.

Other milestones in the telecommunications industry included the removals of IDD and fixed line services exclusivity rights. All of these initiatives were undertaken to promote competition in the telecommunications industry. Indosat welcomes the increased in competition that will ultimately benefit the consumers in Indonesia.

**Performance**

Notwithstanding the challenging backdrop, Indosat was able to make significant progress in transforming itself into a world-class telecommunications provider. Indosat's strategic entry into the cellular sector has been rewarding. With the current low fixed line and mobile penetration rates in Indonesia, Indosat's growth potential is expected to be strong and promising.

**Outlook**

In 2003, Indosat will continue to consolidate its businesses to optimize its operations for the growth potentials in the telecommunications industry. Specifically for this objective, the Transformation Programme was introduced in August 2002 and will be fully implemented in the next two years.

I believe that with the firm and focused business direction from the leadership team and the commitment of a competent workforce, Indosat will be able to successfully transform itself into world-class global telecommunications provider.

I wish to thank my predecessor, Pak Wisnu Marantika, and other members of the Indosat Board of Commissioners, for their guidance and sacrifices in the past years. I wish them every success in their future.

On behalf of the Board of Commissioners I wish to also thank Pak Widya Purnama, CEO of Indosat, members of his Board and every single Indosat employee for their dedication, efforts and willingness to stay focus on the task when the going got tough. Last, but not least, I want to thank our shareowners for their support throughout these challenging times.

Looking ahead, I believe that our strategy is moving us decisively towards creating a market leader, well placed to harness the growing telecommunications industry.

***capitalising fully on the benefits of our strategic partnership***

The Indonesian Government, in line with its plan to prepare Indosat for the next stage of growth, divested its majority stake in Indosat through a block sale in May 2002, and a strategic sale in December 2002. Following an open bid, the Indonesian Government selected Singapore Technologies Telemedia (ST Telemedia) through Indonesia Communications Limited (ICL) as the strategic investor for Indosat in December 2002. The partnership between Indosat and ST Telemedia will support Indosat's vision of becoming a world-class integrated telecommunications provider, having the capability of maximising the growth opportunities in Indonesia and beyond.

I am pleased to note the positive financial results of Indosat in 2002.

Jakarta, May 2003

**Peter Seah Lim Huat**
President Commissioner

# Report of the President Director

**Widya Purnama**
President Director

["Indosat will focus on developing its cellular service as a core business while also nurturing the MIDI and international telecommunications services."]

Dear Stakeholders,

With the grace of God, Indosat turned a challenging year into a momentum of growth and opportunity.

Year 2002 has been an eventful year for Indosat. However, it has also been one in which we have made significant progress in our business strategy. We have managed to achieve very strong growth in our cellular business. We have held onto and defended our IDD business. We have also continued to develop and nurture our MIDI business.

We are on track to transforming Indosat into a "cellular focused full network and services provider".

I am pleased to report that in 2002, our cellular business has become a major revenue contributor. Cellular business contributed 48% of Indosat's total consolidated revenues while IDD contributed 32%. In 2001, our cellular business accounted for only 34% of revenues, with IDD as a major contributor at 42%.

All of these were the result of key strategic initiatives that Indosat had embarked on in 2002, among which were the acquisition of DeTeAsia's remaining 25% of stake in Satelindo and the subsequent injection of additional capital into Satelindo to relieve it of restrictive debt covenants. For the first time, revenues from our cellular services exceeded those of our international telecommunications services which traditionally were our main revenue contributor. This is in line with our strategy of pursuing cellular growth opportunity aggressively, defending our IDD business resolutely, and nurturing our MIDI business steadily.

In 2002, Indosat also earned the trust of financial institutions and the investment community. We issued the Indosat Bond II and the Indosat Syariah Mudharabah Bond during the year, both of which were well accepted in the market. The support that we have received from these and other stakeholders gave us the encouragement to strive our best for the Company.

**Growth Momentum**

Total consolidated operating revenues increased by 31.7% to over Rp 6.7 trillion in 2002, driven primarily by cellular growth. However, net profit declined 76.9% to Rp 336.3 billion, primarily due to amortisation of debt related to our cellular business.

Indosat's cellular business grew approximately 87% during the year, reflecting the growing customer bases of our cellular group, Satelindo and IM3. The cellular services achieved a net addition of 1,665,651 cellular subscribers in 2002, increasing our cellular customer base by as much as 53.5% to more than 3.5 million subscribers.

The liberalisation of the telecommunications sector in Indonesia has led to a rapid growth of the industry - primarily in the cellular and MIDI businesses - and has opened new opportunities for Indosat to provide fixed-line local telephony service since August 1, 2002, and national telephony service by August 1, 2003.

**Entering Cellular and Fixed Line Businesses**

Between 1995 and 2001, the cellular market in Indonesia grew at an average annual rate of 60%. Indosat pursues this growth aggressively. With approval of the extraordinary meeting of shareholders of June 2002, we acquired the remaining 25% shares of Satelindo. This gave us full control of Satelindo, in addition to our ownership in IM3, marking our full entry into the cellular business with the second largest and fourth largest cellular operators in the country, respectively.

## *2002 was marked by Indosat's full entry to the cellular business*

In the fixed-line business, Indosat has sought other alternatives to penetrate the domestic telephony market in lieu of the aborted KSO transfer. We have begun to develop fixed line networks selectively in key and strategic market locations. Our first fixed-line network, the IndosatPhone, has been operational since August 2002, and we intend to deploy the fixed wireless telephone network based on the CDMA 2000-1X technology by 2003.

**Strengthening Basic Foundations**

Indosat has a strong international telecommunications business, which generated more than Rp 2.1 trillion of revenues in 2002, and a growing MIDI business, which rose by 14.3% in revenues to approximately Rp 1.2 billion in the same year.

International Direct Dialling (IDD) via 001 and 008, the main drivers of our international telecommunications business, remain the preferred choice of major businesses looking for unparalleled reliability and quality in voice connection. This despite the fact that VoIP (Voice over Internet Protocol) service today offers a more economical alternative for international telephone calls.

# An Enduring Legacy

The world continues to revolve around the dynamics of change and progress. But there are some things that will never change - not because they shun progress or are immune to changes, rather because they represent a legacy of an individual, an organisation, a culture or an entire nation.

Thus the colours of Indonesia will always be the red and white of its national flag - denoting courage and purity - fluttering against the backdrop of green vegetations, blue-green waters, and blue skies.

The roots whence we came, whether as a person or an organisation, can never change; no matter how far or how long we have come; regardless of what language we speak; and regardless of what name we carry.

The sum of our shared experiences, both within our own organisation and among our stakeholders, also makes us an integral and indispensable part of the people and nation whom we serve.

A company that serves most of the people within a nation is considered as a national company. A company that serves many people in many countries in many parts of the world, is referred to as a global company. By these definitions, Indosat is definitely a national company of Indonesia - regardless of whether it is a state-owned company, a publicly listed company or a foreign investment company.

In a recent public perception survey following its divestment by the government of Indonesia, Indosat is still widely perceived as a true "Indonesian Company" despite its new entity as a foreign investment company.

This, perhaps, is not so surprising. After all, Indosat is a company that is based in Indonesia, provides its services mainly in Indonesia, employs some of the best and brightest minds in Indonesia, pays taxes to the government of Indonesia, and partakes in the development of the telecommunications sector in Indonesia.

So even if Indosat should become a global company, someday, it will still wear the red and white banner of Indonesia proudly.

Because some things never change.

Indosat positions the IDD 001 service strategically for the high-end corporate market segment, while also targeting middle and retail IDD market segments with Satelindo's IDD 008 service and our own VoIP GlobalSave 17001 service that was launched in 2002.

At the same time, we are nurturing the steady growth of our MIDI (multimedia, data and Internet) services, our second largest growing revenue base after cellular. The MIDI services are provided through subsidiary companies.

### Major Capital Expenditure

Indosat invested Rp 6,444.3 billion in capital expenditures in 2002, of which Rp 5,874.1 billion went into the development of our cellular business, including the acquisition of 25% of Satelindo.

The need for substantial capital expenditure in the development of our cellular business required considerable capital raising capability in 2002. This was achieved partly through bank facilities and bond issues.
We successfully raised a total Rp 1,250 billion from the Indosat Bond II and the Indosat Syariah Mudharabah Bond, which effectively shifted a substantial amount of our liabilities from short-term to long-term.

### Meeting Demands

Backbone networks are crucial to delivering reliable telecommunications services in a country the size of Indonesia, and linking it with the rest of the world. Indosat currently has ownership of and access to a number of submarine cables reaching across five continents, a satellite that beams over 35 Asia Pacific nations, and expanding digital inter-city and inner-city networks. Our inner-city networks include the Indosat Super Corridor network linking 32 office towers and hotels in the Jakarta Golden Triangle business district, representing the cream of the information and telecommunications market in the country to date. In future, the development of Indosat's backbone network will be geared towards facilitating telecommunications transmission throughout Indonesia and the world, with adequate bandwidth capacity to meet growing demands.

### Stepping Into the Information Age

As one of the top ten companies in Indonesia and 200 leading companies in Asia Pacific, Indosat has a key role to play in the development of human resources, not just within its own organisation and industry, but also among the larger population of Indonesia. This role is served by continuing to be one of the nation's center of excellence, facilitating transfer of technology, providing learning experiences to professionals, offering apprenticeship to graduating students entering the job market, enlightening the public on telecommunications and related technology, and beating a path to the information age.

We continue to perform these roles admirably, evidenced by a recent public perception survey on Indosat undertaken by a leading market research firm. Highlights of that survey are presented here in our featured four-part 'flap' attachments starting on this page.

### Outlook for 2003

The year 2003 holds considerable prospect for harnessing greater synergy among the Indosat group of companies. In store is the Transformation Programme of Indosat which envisages the merger of our two cellular businesses into Indosat, and realigning both

[ "The development of backbone network is geared towards ensuring the adequacy of bandwidth capacity to meet growing demands." ]

[“An independent and impartial regulator can enforce a fair and healthy competitive market framework leading to the long-term growth of our industry”. ]

our human resources and business processes to the future needs of our respective cellular, IDD and MIDI businesses. The merger itself, if approved by stakeholders, is planned to take place in 2003, with the post merger integration expected to be completed by the end of 2004.

A strong synergy is also expected between Indosat and ST Telemedia as our strategic partner which, through Indonesia Communications Limited, had acquired 41.94% shares of Indosat in December 2002. ST Telemedia is a leading information-communications company in Singapore and Asia Pacific that has both the expertise and resources to build Indosat into a world-class telecommunications network and services provider. Indeed, Indosat looks forward to an exciting future.

2003 will be an even more challenging year for all of us. Indosat will need to put its best effort in order to carry through the various planned initiatives while maintaining our growth momentum. Indosat will need to press on earnestly with the transformation process.

We will need to build strong pillars for the new Indosat, so that we will be able to face up to the challenges of a highly competitive landscape and exciting new future.

On the regulatory side, our expectation is that an independent and impartial regulator can and will enforce a fair and healthy competitive market framework that would lead to the long-term growth of our industry, thus serving the public with more and better services.

**Acknowledgment**

On behalf of the Board of Directors, I wish to thank our predecessors who served on the previous Board of Directors with utmost dedication and commitment. To our new President Commissioner, Mr. Peter Seah Lim Huat, who joins Indosat in December 2002 with new Commissioners, we welcome you on board and look forward to your leadership and partnership.

Finally, allow me on behalf of Indosat to express our appreciation to the House of Representatives and the Government of Indonesia, our shareholders, our personnel, customers, creditors, business partners, the telecommunications community and the general public for their support of Indosat.

I am confident that we will be able to take on all challenges in our stride, and that by the end of 2003, we expect to be able to report an even better performance - with your support, and the good grace of God.

Jakarta, May 2003

**Widya Purnama**
President Director

# Good Corporate Governance

[Indosat and its subsidiaries recognise the importance of Good Corporate Governance as an indispensable tool to build sustainable and long-term shareholder value as well as the interest of other stakeholders.]

## *Transparency, Fairness and Accountability*

The implementation of Good Corporate Governance (GCG) was a key priority of Indosat in 2002. GCG is officially endorsed by the Government of Indonesia, among other things by the National Committee on Corporate Governance which has issued the Indonesian Code for Good Corporate Governance, and evaluated the implementation of GCG in publicly listed companies and state-owned companies. In addition, on 1 August 2002, the Minister for State-owned Enterprises issued a decree on the implementation of GCG at state-owned companies.

Indosat continues to strengthen its implementation of the GCG policy, ensuring that it complies with the rules and regulations of the Indonesian Capital Market Supervisory Board (Bapepam), the Jakarta Stock Exchange and Surabaya Stock Exchange. Being listed on the New York Stock Exchange also means that Indosat has to comply with NYSE rules and those of the US Securities Exchange Commission (SEC), as well as the Sarbanes Oxley Act which took effect in 2002.

### GCG Principles and Work Ethics

Indosat is aware of its responsibility to shareholders. The implementation of GCG is aimed at strengthening the Company's commitment to building long-term shareholder value. As such, Indosat has formulated a corporate governance policy which ensures:

- Transparency on information dissemination to shareholders and other stakeholders;
- Effective and independent management with the aim to avoid conflict of interests;
- Fair and accountable company policies;

- Adequate internal controls to safeguard the Company's assets, shareholders' equity, and compliance to prevailing rules and regulations; and
- Commitment to the interest of minority shareholders.

The Company's business and work ethics are contained in formal internal policy manuals, including but not limited to code of conducts governing the procurement of goods and services, and a collective labour agreement between Management and the Indosat labour union (Serikat Pekerja Indosat). Business ethics in their various forms have been applied consistently since the Company was established as a foreign investment company in 1967, and persist to date. While new recruits receive special training on the Company's business ethics and code of conduct.

The Company is currently in the process of codifying all of its rules and regulations pertaining to GCG, business ethics and code of conduct into a single master document for easy reference. From this exercise, it expects to have the Manual on Good Corporate Governance and Manual on Corporate and Business Ethics ready by 2003.

### Shareholders' Rights

One of the main aims of GCG implementation by a listed company is the equal treatment and protection of the rights of minority shareholders. The Company recognises the personal rights of each and every shareholder, as contained in the Corporation Laws of 1995, the Rules and Regulations of Bapepam and the Company's own Articles of Association. These rights comprise, among other things:

- The right to attend and cast vote at the General Meeting of Shareholders, based on the one-share-one-vote rule;
- The right to obtain information about the Company in a timely and orderly manner to allow for informed investment decisions with regards to the shares of the Company; and
- The right to have a share of the Company's profit in proportion to the amount of shareholding in the Company, in the form of dividends or other forms of profit sharing.

### Delegation of Duties and Authorities

One of the GCG principles that has been implemented successfully at the Company is the delegation of duties and authorities of Directors, Commissioners and Independent Commissioners. This ensures the independence of each Director and Commissioner, none of which is related to one another by family ties or any other affiliations which could compromise such independence.

### Board of Directors

The principal task of the Board of Directors is to lead and manage the Company in achieving its goal and constantly improving its efficiency and performance; while also controlling, securing and managing the Company's assets. The Board of Directors has issued Management Decree No. 044/DIREKSI/2001 that specifies the respective duties and authorities of each Director.

### Board of Commissioners

The principal task of the Board of Commissioners is to supervise the management of the Company. The task of the Independent Commissioners, in addition to supervising the Company, is to represent the interests of the minority shareholders. The appointment of the Independent Commissioners has been conducted in line with the rules and regulations of the Jakarta Stock Exchange. Through the Board of Commissioners Resolution No. 080/SK-KOM/XII/01 of December 19, 2001, the Company appointed Mr. Achmad Rivai and Mr. Soebagijo Soemodihardjo as Independent Commissioners, one of whom also serves as Chairman of the Audit Committee. At the Extraordinary General Meeting of Shareholders on December 27, 2002, Mr. Lim Ah Doo was also appointed as Independent Commissioner.

### Audit Committee

In compliance with the Board of Commissioners Resolution No. 048/SK-KOM/VIII/01 of September 1, 2001, which was duly amended to the Board of Commissioners Resolution No. 23/SK-KOM/VI/02 of June 1, 2002, the Company's Audit Committee serves to aid the Commissioners in the fulfillment of the following tasks:

- Evaluate the audit works and audit results of both the internal and external auditors, ensuring that those audits are carried out in line with generally accepted standards and practices;
- Recommend improvements to the Company's internal control systems and their implementation;
- Ensure adequate reviews and assurances on the accuracy of company information disseminated through brochures, periodical financial statements, business forecast and projections, and other financial information presented to shareholders.
- Evaluate significant accounting policies that are undertaken by the Company and reported in the financial statements.
- Evaluate the effectiveness of the company's internal controls;
- Ensuring the compliance with prevailing laws and regulations;
- Identifying issues which require the attention of Commissioners;
- Accomplishing other tasks given by the Board of Commissioners, in so far as they remain within the boundaries of the Board of Commissioners' duties and responsibilities by law.

The report of the Audit Committee for fiscal year 2002 is presented on page 28 of this annual report.

### Board Meetings

Members of the Board of Directors meet regularly in the course of the day-to-day management of the Company, whereas the Board of Commissioners meet at least once every three months. In 2002, the Board of Commissioners met 16 times, while the Board of Directors met 34 times in total.

### Appointment of Directors and Commissioners

The appointment of Directors and Commissioners takes place at the General Meeting of Shareholders. Prior to the divestment of Indosat shares by the government in late 2002, the appointment of Directors and Commissioners of the Company had always been preceded by a fit-and-proper test undertaken by the Government of Indonesia as the majority shareholder of the Company. Successful candidates are then nominated for board membership, to be approved by the General Meeting of Shareholders. Beyond 2002, in which the Government of Indonesia is no longer a majority shareholder, the Company, through its Commissioners, plans to establish a Nomination Committee that will be responsible for setting the competency criteria for the candidacy nomination of members to the Board of Directors and Board of Commissioners.

### Remuneration for Directors and Commissioners

For their services, Commissioners and Directors are entitled to remuneration which are determined by the Annual General Meeting of Shareholders.

For the period January to June 2002, the total amount of remuneration paid in the form of salaries, bonuses and other benefits to Commissioners and Directors was Rp 6,348,181,500. The Extraordinary General Meeting of Shareholders on June 20, 2002, changed the composition of the Board of Commissioners and the Board of Directors. In relation to that, the Company provided retirement benefits amounting to Rp 2,094,668,332 and recognised retention expenses amounting to Rp 6,997,440,000. The Directors of this period were Hari Kartana, Habimono Koesoebjono, Garuda Sugardo, Guntur Siregar and Budi Prasetyo, while the Commissioners comprised of Wisnu Askari Marantika, Achmad Rivai, Soebagijo Soemodihardjo, Abdul Anshari Ritonga and Muwardi P. Simatupang.

For the period of July to December 2002, the total amount of remuneration paid in the form of salaries and other benefits to Commissioners and Directors was Rp 5,505,079,000. On December 27, 2002, the Extraordinary General Meeting of Shareholders retired several Commissioners, and increased the members of the Board of Commissioners and Board of Directors. In relation to that, the Company provided retirement benefits amounting to Rp 319,832,500 and recognised retention expenses amounting to Rp 852,480,000. The Directors for the period of July to December 27, 2002, were Widya Purnama, Junino Jahja, Emil Soedarmo, Hasnul Suhaimi and Wityasmoro Sih Handayanto, whereas the Commissioners comprised of Wisnu Askari Marantika, Achmad Rivai, Soebagijo Soemodihardjo, Hari Kartana, Abdul Anshari Ritonga and Mahmuddin Yasin.

The incoming Directors, Ng Eng Ho, Nicholas Tan Kok Peng, Joseph Chan Lam Seng, Raymond Tan Kim Meng; and the incoming Commissioners, Roes Arya Widjaja, Umar Roesdi, Peter Seah Lim Huat, Lee Theng Kiat, Lim Ah Doo, Sio Tat Hiang, Sum Soon Lim, all of whom were appointed by the Extraordinary General Meeting of Shareholders on December 27, 2002, will start receiving their remuneration in fiscal year 2003.

### Corporate Secretary

Pursuant to the regulation of Bapepam on disclosure policy, every public company is required to appoint a Corporate Secretary who is responsible for the dissemination of information of materiality to the performance of the Company. The Company appointed Mr. Indar Atmanto as Corporate Secretary on August 20, 2002, with the following responsibilities:

- keeping abreast of developments in the capital market in particular its statutory laws and regulations;
- disseminating relevant information to the investment community with respect to the progress of the Company;
- advising Board of Directors on compliance issues with respect to the Capital Market Laws No. 8 of 1995 and accompanying regulations;
- acting as Liaison Officer between the Company and the capital market authorities and stock exchanges;
- preparing a special register of the Company's Directors, Commissioners and their family members as well as those of subsidiary companies, describing the ownership of shares and/or businesses of each individual that may give rise to a conflict of interests.
- maintaining a register of shareholders including ownership of 5% or more;
- attending meetings of the Board of Directors and taking the minutes of meeting; and
- coordinating the General Meeting of Shareholders in accordance with prevailing rules and protocols.

### Information Disclosure and Investor Relations

The Company uses several media to disclose material information on its progress from time to time. Its investor relations activities include regular reporting on the company's performance and results of operations through the quarterly investor newsletter, "Blitz", quarterly and annual financial reports, press conferences, analyst briefings, public exposes, road shows, and international conference calls. For the annual report alone, the Company publishes the so-called glossy annual report in Bahasa Indonesia and English versions, which may be obtained by shareholders and the interested public throughout the year from the Corporate Communications Division at the Company's Head Office. The Company also publishes its annual reports on form 20-F in English, in compliance with the reporting requirement of the U.S. Securities Exchange Commission (SEC). In addition to these documents, shareholders and the general public can follow the Company's developments through the Company's website at www.indosat.com.

### Internal Control

The internal control system of the Company includes a comprehensive set of tools and measurements, from job descriptions to standard operating procedures to reporting lines and accountabilities, all of which is integrated in such a way that they provide an adequate measure of internal control. The main responsibility for internal control rests with the Internal Audit Division, which is divided into three areas, namely Business, Operations and Engineering, and Finance and Support. The main task of the Internal Audit Division is to evaluate, review and analyse the activities of the Company. Aside from this there is the Audit Committee which is assigned by the Board of Commissioners to supervise and coordinate the audit works of the Internal Audit Division. Audit works in 2002 produced a total of 42 audit findings which were reported to the Audit Committee to follow up.

### Appointment and Fee of the Independent Auditors

The Board of Commissioners, based on the mandate given by the General Meeting of Shareholders, have appointed the public accountant firm of Prasetio, Sarwoko & Sandjaja, member of Ernst & Young Global, as the Company's independent auditors, to audit and provide an opinion on the Company's financial statements for the year ending December 31, 2002, for a total fee of Rp 2,145 million.

### Statement of the Independent Auditor About Conflicts of Interest

In their letter to the Audit Committee on November 18, 2002, the Independent Auditors have certified that there were no conflicts of interest in their audit works.

### Statement of Accountability for Financial Reporting

See Statement of Responsibility for Financial Reporting by the Board of Commissioners and Board of Directors in the consolidated financial report.

### Affiliated Transactions

A complete list of the Company's significant transactions with affiliated parties can be found in note 26 in the Notes to the Audited Consolidated Financial Statements of the Company.

### Transactions Pending Approval of the General Meeting of Shareholders

As at year-end 2002, the Company did not have any transaction which required the approval of the General Meeting of Shareholders. However, with respect to the Extraordinary General Meeting of Shareholders of December 27, 2002 which in principle had given its approval for the ESOP - the Company intends to seek the approval on the details of ESOP at the next Annual General Meeting of Shareholders.

### Material Information with Respect to Compliance

The Company has established official guidelines and manuals with respect to the compliance of the Company and its employees to prevailing laws and regulations, both externally and internally.

### Pending Litigation

At the time this report went to press, the Company had a single pending litigation case of significance, involving the law suit of Primkopparseni (previously Primkopparpostel) at the Central Jakarta District Court concerning an alleged and disputed amount of debt. The case had received the verdicts of the Central Jakarta District Court and the Appellate Court, both of which were partially in favour of the plaintiff. On February 17, 2003, the Appellate Court endorsed the previous verdict of the Central Jakarta District Court of April 18, 2002, and ordered the Company to pay a sum of Rp 13,660,188,118 plus interest of 13% per annum between February 16, 1998, and the time when the sum shall have been fully paid.

Subsequent to the verdict of the Appellate Court, the Company has appealed the case to the Supreme Court on March 12, 2003 on the grounds of its strong conviction on the merits of its position. The Company awaits the judgment of the Supreme Court.

### Use of Proceeds from Capital Raising

In 2002, the Company issued the Indosat Bond II and the Indosat Syariah Mudharabah Bond amounting to a total of Rp 1.25 trillion, the proceeds of which were used to refinance and retire the Company's short-term bank facilities.

### Credit and Bond Ratings

The Company was awarded a rating of AA+ by the Indonesian Rating Agency, Pefindo. The same rating of AA+ was awarded to the Indosat Bond I of 2001, the Indosat Bond II and the Indosat Syariah Mudharabah Bond of 2002. All these ratings came with the definition of "stable outlook".

Quoting Pefindo's assessment of the Company on its ratings: "The ratings of ISAT are based on a number of fundamentals, namely the Company's improved business profile, promising cellular business and solid financial condition."

# Board of Commissioners

**Sio Tat Hiang** - Commissioner

**Lee Theng Kiat** - Commissioner

**Peter Seah Lim Huat** - President Commissioner

**Lee Theng Kiat** • Age 49. Commissioner of Indosat since December 27, 2002. President & CEO Singapore Technologies Telemedia. Director - Legal/Strategic Investment - Singapore Technologies Ventures, 1992-1995. Director Legal - Singapore Technologies Holdings, 1990-1992. Director Legal - Singapore Technologies Industrial Corporation, 1985-1989. Bachelor of Law, (Honours), University of Singapore, 1976.

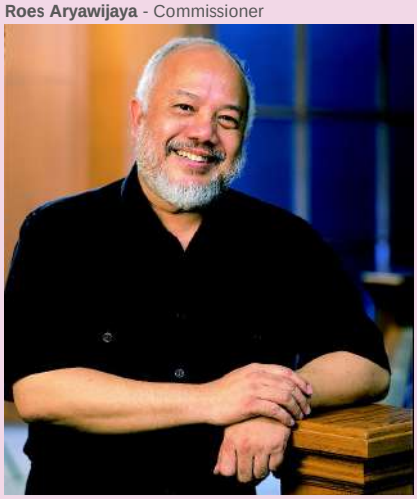
**Sio Tat Hiang** • Age 55. Commissioner of Indosat since December 27, 2002. Executive Vice President - Singapore Technologies Telemedia. Group Treasurer/ Director - Strategic Investment, Singapore Technologies Pte Ltd., 1993-1997. Vice President - Corporate Finance, Singapore Technologies Holdings, 1991-1993. Director of Sun Hung Kai Securities Pte Ltd, 1989-1991. Vice President/Head - Domestic Money Market, OCBC Bank, 1987-1989. Bachelor of Business Administration, (Honours), University of Singapore, 1970.

**Sum Soon Lim** • Age 59. Commissioner of Indosat since December 27, 2002. Director - Chartered Semiconductor Manufacturing Ltd. Director - CapitaLand Ltd. Director of Singapore Technologies Telemedia Pte, Ltd. Director - Green Dot Capital Pte, Ltd. Director of Vertex Ventures Holdings Ltd. Director - Singapore Health Services Pte, Ltd. Corporate Advisor - Singapore Technologies Pte Ltd Securities Industry Council. Bachelor of Production Engineering of University of Nottingham UK.

**Peter Seah Lim Huat** • Age 56. President Commissioner of Indosat since December 27, 2002. President & CEO Singapore Technologies Pte. Ltd. President/ Chairman (Management Committee), Overseas Union Bank Limited, 1999-2001. Vice Chairman and Chief Executive/Chairman (Management Committee), Overseas Union Bank Limited, 2001. Executive Director & Chief Executive, International Bank of Singapore Limited, 1985-1991. Citibank N.A, 1969-1977. Assistant Vice President, World Corporate Division, 1977. Bachelor of Business Administration, (Honours). University of Singapore, 1968.

**Sum Soon Lim** - Commissioner

**Roes Aryawijaya** - Commissioner



**Umar Rusdi** - Commissioner

**Roes Aryawijaya** • Age 51. Commissioner of Indosat since December 27, 2002. Deputy Minister of State Enterprises (Mining, Strategic Industry, Energy and Telecommunications). Secretary of Government Board of Commissioners for Government (DKPP). Head of Planning Bureau, the Secretariat General of the Department of Mining Energy, 1999-2000. Head of Geothermal Exploration and Production Subdirectorate, 1994-1999. Head of Natural Gas Refinery and Transportation Subdirectorate, 1990-1991. MSc of Petroleum Economic, University of New South Wales Australia. Degree in Oil Engineering, ITB, 1977.

**Umar Rusdi** • Age 56. Commissioner of Indosat since December 27, 2002. Secretary General of the Department of Communication. Head of Research and Development, Department of Communication, 2000-2001. President Commissioner of PT Pelindo I, 1994-1998. Member of the Supervisory Board, PT Pelindo I, 1991-1994. Head of the Logistics Bureau, 1989-2000. Degree in Economics, Universitas Islam Indonesia, Yogyakarta, 1969.

**Soebagijo Soemodihardjo** • Age 62. Commissioner of Indosat since January 2000. Independent Commissioner of Indosat since 2001. Head of Research & Development, Department of Communications, 1993-2000. President Commissioner of PT Pelindo III, 1992-1998. Board of Supervisor of Perumka, 1992-1995. Commissioner of PT Varuna Tirta Prakarsya (Persero), 1987-1996. Head of the Legal Bureau & KSLN, Department of Communications, 1985-1993. Master of Science, Universitas Indonesia, 1997. Degree in Law, Universitas 17 Agustus (UNTAG), 1973. Degree in Administration, Sekolah Tinggi Ilmu Administrasi, STIA-LAN RI, 1969.

**Achmad Rivai** • Age 53. Commissioner of Indosat since 2000. Independent Commissioner of Indosat since 2001. Chairperson of Audit Committee since 2001. Director, Operations & Engineering of Indosat, 1996-2000. Director of International Telecommunication, PT Satelindo, 1993-1996. General Manager, Operations & Engineering of Indosat, 1991-1993. General Manager, Operations of Indosat, 1988-1991. General Manager, Logistics and Development Indosat, 1987-1988. Degree in Electrical Engineering, Institut Teknologi Bandung, 1975.

**Lim Ah Doo** • Age 53. Commissioner of Indosat since December 27, 2002. Director & Chairman Audit Committee - GP Industries Ltd. Director & Chairman Audit Committee - Sunlight Group Ltd. Chairman - Singapore Merchant Bankers Association, 1993-1995. Director - Institute of Banking and Finance, 1993-1995. Chairman & Managing Director - Deutsche Morgan Grenfell (Asia) Ltd, 1977-1995. Sub Committee Member & Economic Planning Committee - Ministry of Trade and Industry, 1977-1995. Bachelor of Science Engineering, (Honours), Queen Mary College, University of London - 1971.

**Soebagijo Soemodihardjo** - Independent Commissioner

**Achmad Rivai** - Independent Commissioner

**Lim Ah Doo** - Independent Commissioner

# Board of Directors

**Widya Purnama** - President Director

**Ng Eng Ho** - Deputy President Director

**Widya Purnama** • Age 48. President Director of Indosat since June 30, 2002. President Director of EDI, 1995-2002. Board member of EDIFACT Asia, 1995. MMBAT, ITB, 1992. Degree in Electrical Engineering, ITS, 1983.

**Ng Eng Ho** • Age 48. Deputy President Director of Indosat since December 27, 2002. Managing Director of Keppel T&T, 1990. Bachelor of Science, Telecomm System Engineering (Honours). Royal Military College of Science, UK.

**Hasnul Suhaimi** • Age 45. Director of Indosat since June 30, 2002 and Director of Cellular Marketing since April 2003. President Director of Indosat Multimedia Mobile, 2001-2002. Director of Marketing & Sales of PT Telkomsel, 1998-2000. Director of Marketing & Sales of PT Indosel, 1997-1998. General Manager Sales of Indosat, 1996-1997. General Manager Marketing of Indosat, 1995-1996. MBA, University of Hawaii, 1992. Degree in Electrical Engineering, ITB, 1981.

**Wityasmoro Sih Handayanto** • Age 45. Director of Indosat since June 30, 2002 and Director of Infrastructure since April 2003. Commissioner of PT Satelindo since 2002. General Manager Business Development of Indosat, 2000-2002. Commissioner of PT Aplikanusa Lintasarta, 2001-2002. Commissioner of Cambodia Telecommunication Corp., 2000-2002. Director Marketing & Sales and Development of PT Aplikanusa Lintasarta, 1994-2000. Director of PT Sisindosat, 1992-1993. MBA, IPMI, 1989. Degree in Electrical Engineering, ITB, 1982.

**Emil Soedarmo** • Age 44. Director of Indosat since June 30, 2002 and Director of Fixed Communications since April 2003. Director Production and Operations of PT CTPI, 2000-2002. General Manager Information System of PT Indosat, 1999-2000. Director Operations of PT Sisindosat, 1994-1997. MBA, IPMI, 1992. Degree in Industrial Engineering, Bandung Institute of Technology, 1982.

**Junino Jahja** • Age 43. Director of Indosat since June 30, 2002 and Director Multimedia, Data Communications & Internet since April 2003. Head of Western Region Division of Indosat, 2000-2002. Head of Internal Audit of Indosat, 1999-2000. Director of PT Kalimaya Perkasa Finance, 1997-2001. Director of Cambodia Indonesia Telecommunication Corp., 1995-2000. MBA, University of Exeter England, 1998. MBA, University of Southern California USA, 1992. Degree in Accountancy, Universitas Indonesia, 1985.

**Joseph Chan Lam Seng** • Age 44. Director of Network Integration of Indosat since December 27, 2002. Assistant Vice President - Switching & NGN Systems, StarHub Pte Ltd. Vice President Special Projects - Singapore Technologies Telemedia Pte Ltd, 1998-1998. Deputy General Manager - Chartered Systems & Networks, 1992-1998. Bachelor of Engineering - Electrical. University of Singapore - 1972-1976.

**Hasnul Suhaimi** - Director

**Wityasmoro Sih Handayanto** - Director

**Emil Soedarmo** - Director

**Nicholas Tan Kok Peng** • Age 44. Director of Finance of Indosat since December 27, 2002. Vice President of Finance - StarHub Pte Ltd. Director - Finance, Singapore Technologies Telemedia Pte Ltd, 2001-2002. Financial Controller - South East Asia, Becton Dickinson Medical Singapore Pte Ltd, 1997 - 2001. Financial Controller - South East Asia, Becton Dickinson Medical Product Pte Ltd, 1994-1997. Financial Controller, Manager Tax & Treasury, Manager Planning & Reporting, Manager Management Accounting Section, Senior Management Account - Hewlett Packard Singapore (Pte) Ltd, 1987-1994. Corporate Internal Auditor - Texas Instrumental Singapore, 1987-1987. Bachelor of Accountancy, University of Singapore, 1982.

**Raymond Tan Kim Meng** • Age 48. Director of Business Development of Indosat since December 27, 2002. Managing Director - Nokia Singapore, 2002. President - Worldwide Sales & Service, Singapore, Thailand, Brunei, Vietnam - Lucent Technologies Singapore, 1998-2001. Regional General Manager, Singapore, Thailand & Indochina - Northern Telecom Singapore, 1993-1998. Managing Director - Shinawatra DataCom, Thailand, 1990-1993. Singapore Telecoms, 1979-1990.

**Junino Jahja** - Director

**Joseph Chan Lam Seng** - Director

**Nicholas Tan Kok Peng** - Director

**Raymond Tan Kim Meng** - Director

# Audit Committee

["...Audit Committee concluded that the Company was in full compliance with all prevailing laws and regulations throughout 2002."]

**Achmad Rivai** • Age 53. Chairperson of Audit Committee of Indosat since 2001. Independent Commissioner who has experience in both corporate executive and oversight capacity in operations, planning, engineering and development. Degree in Electrical Engineering, Institut Teknologi Bandung, 1975.

**Achmad Fuad Lubis** • Age 60. Member of the Audit Committee of Indosat since 2001. Independent expert with executive experience in Human Resources, Logistics, Support Services and Audit. Degree in Electrical Engineering, University of Tasmania, Australia, 1971. MBA degree, Institut Pengembangan Manajemen Indonesia (IPMI), Jakarta, 1988.

**Wuryanto** • Age 58. Member of the Audit Committee of Indosat since 2001. Independent expert with executive experience in Accountancy, treasury, and Audit. Degree from the Faculty of Economics, Universitas Jayabaya, 1984. MBA degree, Institut Pengembangan Manajemen Indonesia (IPMI), 1989.

Wuryanto, Achmad Fuad Lubis, Achmad Rivai (Chairperson of Audit Committee)

# Audit Committee Report

### I. OVERVIEW

In 2002, Indosat had established the Audit Committee which comprised of an Independent Commissioner as Chairperson and two independent experts as committee members.

In view of the Sarbanes Oxley Act and regulatory changes at the U.S Securities Exchange Commission (SEC) and the New York Stock Exchange (NYSE), the appointment in 2003 will, in addition to complying with the requirement of the Jakarta Stock Exchange, also take into account the requirement of the Sarbanes Oxley Act the US-SEC and the NYSE.

### II. ACTIVITY AND REPORT OF THE AUDIT COMMITTEE

In 2002, the Committee had discharged all of the duties assigned to it as required by the regulations and authorities of the capital markets in which the Company is listed, including the Jakarta Stock Exchange, the New York Stock Exchange, BAPEPAM and the US-SEC.

One such regulation requires the Audit Committee, pursuant to the Directive of PT Bursa Efek Jakarta No.Kep-315/BEJ/062000 which has been amended to Regulation No. Kep-339/BEJ/072001, to ensure that the Annual Report of the Company should contain the following items:

1. **Non compliance by the Company with respect to prevailing laws and regulations.**

In 2002, the Committee evaluated the reports of the Board of Directors and met with the Management and Staff to:

The Committee noted that the issuance of the Indosat Bond I amounting to Rp 1.0 trillion in 2001 had appointed Bank Mandiri as the Custodian Bank. Subsequently, the Committee also noted that in June 2002 Bank Mandiri and the Company entered into a lending-and-borrowing agreement in which Bank Mandiri acted as the Lending Bank and the Company as the Borrower, a breach of covenant that regulates the role of the trustee.
The Committee drew the attention of the Board of Commissioners to this matter and recommended that the Directors arranged for a General Meeting of Bondholders to resolve the matter. On September 3, 2002, such a meeting was convened and decided that, since Bank Mandiri had chosen to remain as a Lending Bank to the Company, its role as the Custodian Bank would be replaced by BRI.
As such, the matter was resolved satisfactorily.

The Committee evaluated the compliance of the Company on the matter of information disclosure and reporting requirements to the capital market authorities such as JSX, BAPEPAM and SEC. On the basis of its evaluation, the Committee found that the Company was in full compliance with statutory requirements on information disclosure and reporting.

In the case of internal reporting, the Committee had requested that such reports be expedited in the interest of efficiency, and had noted improvements in the matter.

Based on all of the above, the Committee concluded that the Company was in full compliance with all prevailing laws and regulations throughout 2002.

2. **Discrepancies or faults in the presentation of financial report, internal control, and the independence of the Company's independent auditors.**

The Annual General Meeting of Shareholders on June 20, 2002 assigned the Board of Commissioners to solicit the services of a Public Accountant Firm to audit the books for fiscal year 2002. In addition, the Board of Commissioners was also assigned to solicit an audit service for management performance. The Audit Committee noted that the two solicitations had been carried out through separate tender bids which were awarded to Ernst & Young/ Prasetio, Sarwoko & Sandjaja for the 2002 financial audit, and to HBL-Hadori for the 2002 management audit.

The Committee noted that the selected Public Accountant Firm had performed financial audits on the Company's consolidated financial statements for the six-month ending June 30, 2002 and the full year ending December 31, 2002.

The Audit Committee had monitored the audit process, including the responsibility of the Management to prepare the consolidated financial statements as well as the responsibility of the Public Accountant to provide an opinion on the financial statements. The Committee concluded that the financial statements had been prepared in accordance with the generally accepted accounting standards. The Committee was also of the opinion that the audit results of the Public Accountant were in line with the audit plans and specifications stated in the audit appointment contract. These audit results are presented in this annual report.

Meanwhile, the audited consolidated financial statements for the six-month ending June 30, 2002 had been used in the issuance of the Company's bonds.

The Committee also noted that the Management Performance Audit Report of 2002 had been completed by the Public Accountant Firm of HLB Hadori in which the results were in line with the Financial Audit Report of 2002. The Committee further noted that there were no other works undertaken by the two firms for the Company in 2002 other than their respective audit works, and that each Public Accountant Firm had submitted an affidavit attesting to their full independency, devoid of any other or conflicting interest, in carrying out the independent audits required of the Public Accountant Firm.

3. **Evaluation on the implementation of the total remuneration package for the Directors and Commissioners.**

The Audit Committee also reviewed the implementation of the total remuneration package for the Directors and Commissioners, as follows:

The Committee noted that the total remuneration package for the Directors and Commissioners comprised of salary, bonus and benefits that had been determined by the AGMS of June 20, 2002. The evaluation of the Committee confirmed that the remuneration package accorded to the Directors and Commissioners was in line with the resolution of the AGMS above. The amounts of remuneration to the Directors and Commissioners as reported by management are presented in this annual report.

It should be noted that as a result of changes to members of the Board of Directors and Board of Commissioners, the Company had provided retirement benefits in accordance with existing provisions to the departing Directors and Commissioners.

The Audit Committee
Achmad Rivai • Chairperson

# Cellular Service

[For the first time ever in 2002, the cellular business became Indosat's largest contributor of consolidated revenues as predicted, generating 48.0% of total consolidated revenues, up from 35.4% in 2001.]

The *Bright*, *Mentari*, *Smart* and *Matrix* cellular services strategically serve the GSM 900 and GSM 1800 market segments by offering the best of both systems while also benefitting from the synergy between the two cellular networks.

Bright • Matrix • Smart • Mentari • Bright • Matrix • Smart • Mentari • Bright • Matrix • Smart • Mentari • Bright • Matrix

# *Building a New Growth Foundation*

### Two Cellular Gems

After acquiring 100% shareholdings in Satelindo in 2002, Indosat had full control over Satelindo and Indosat Multi Media Mobile (IM3), its two subsidiaries in the cellular business, both of which showed encouraging growth in their respective businesses during the year. An investment for network expansion and capacity enhancement immediately followed the acquisition, which led to the significant growth in the number of Satelindo's cellular subscribers during the second half of 2002. At the same time, the use of Satelindo's cellular network to provide national roaming capability to IM3 afforded IM3 subscribers with an instant nationwide coverage for their cellular service. As a result of these improvements, Indosat's cellular customer base had grown to more than 3.5 million subscribers as at year-end 2002, comprising of more than 3 million Satelindo subscribers and approximately 500 thousand IM3 subscribers.

### Creating Synergy

Capitalising on the two complementing cellular businesses, Indosat moved swiftly to consolidate this advantage by creating a synergy between Satelindo and IM3. An initial step was the unification of the Board of Commissioners of the two companies, allowing for better supervision over the implementation of the 'one management' concept, involving the marketing efforts of the respective brands of the two cellular services, the planning for investments and financial management, the use of cellular networks, and the development of business strategies. All these have resulted in immediate benefits to our cellular subscribers.

### Serving Two Cellular Markets

Indosat has positioned its two cellular businesses differently in line with the advantages and unique characteristics of the respective cellular brands. For instance, Satelindo's post-paid "Matrix" and pre-paid "Mentari" services which offer free nationwide roaming capability are primarily targeted at business or professional subscribers. Whereas IM3's post-paid "Bright" and pre-paid "Smart" services are mainly targeted at young adults and teenagers in urban centres. In this way, Indosat expects to fill a wide spectrum of the cellular market segments at present as well as in the future.

### Innovative Marketing by Satelindo

Commemorating the 57th Independence Day of the Republic of Indonesia, the pre-paid Mentari service, already a household name for a decade, launched the "Spirit of Red and White" edition of the Mentari+ starting package. The Mentari+ represents a new generation of prepaid SIM cards with enhanced features such as larger SMS and Phonebook memories as well as free national roaming facility.

"Satelindo successfully expanded network capacity and enhanced service quality through the use of the Intelligent Network (IN) platform, resulting in the growth of our subscribers from 1.8 million in 2001, to 3.0 million in 2002."

**Johnny Swandi Sjam**
President Director, Satelindo

"By offering multimedia cellular services, IM3 succeeded in enlarging its customer base among the younger generation, becoming the trend setter in cellular services in Indonesia. In 2002, IM3 had over 500,000 subscribers.

**Yudi Rulanto**
President Director IM3

Meanwhile, the "Matrix F2" (Family & Friends) programme offers a fixed monthly subscription charge for Matrix card users along with family members and friends belonging to the same Matrix F2 package. Other attractive offers include a 20% discount on airtime charge for calls made to the seven most frequently dialled numbers by Satelindo subscribers, discounts on IDD 008, and automatic membership to Club 008. In 2002, Satelindo also implemented the intelligent network technology to its cellular services, allowing for the development of special features and higher voucher top-up reload capacity for Satelindo's prepaid cellular service.

### Two Awards for IM3

As a newcomer, IM3 received the "Indonesian Best Brand Award" from IMA (Indonesian Marketing Association) as the Brand of the Future in the cellular category. Internationally, IM3 was also recognised by Mobile News, a Singapore cellular trade magazine, as one of "32 Asian Leading Operators", and the only Indonesian cellular operator to be recognised in the category.

Employing the most advanced cellular technology in use in Indonesia today, IM3 offers leading features that truly makes it the trend setter in cellular services, particularly suited to the lifestyles of the urban youth culture which represents the main target market of IM3. Among these advanced features are the unified messaging service and the multimedia messaging service facilities, which allow for easier transmission of voice, text and images, facilitated by GPRS (General Packet Radio Service) technology which is currently the closest application yet to the so-called 3G (third-generation) cellular technology. Subscribers of the IM3 cellular services of Bright and Smart also benefit from the synergy between the cellular businesses of the Indosat Group, enjoying the nationwide roaming capability of IM3 cards through the use of Satelindo's network.

IM3 • Satelindo • IM3 • Satelindo • IM3 • Satelindo • IM3 • Satelindo • IM3 • Satelindo • IM3 • Satelindo

Satelindo 10th Anniversary

MENTARI

Di sela rutinitas menjalani hari-hari Anda, ada saatnya menikmati kebebasan dalam kebersamaan. Sebebas Anda berkomunikasi dengan Mentari.

Untuk Informasi lengkap hubungi Call Center 24 Jam: (021) 5430 8888 atau 222 dari MENTARI atau kunjungi www.satelindogsm.com

The freedom to be you

SATELINDO

# Fixed Telecommunications Service

[Cooperation with local and international partners, the trust of our customers, and innovative product developments continue to spur Indosat's fixed telecommunication services, achieved among other things by defending the IDD business and developing Indosat's own domestic fixed-access networks.]

Indosat has implemented a tiering strategy with respect to INDOSAT IDD 001, SATELINDO IDD 008 and GlobalSave 17001 services, while also pursuing every opportunity to create greater synergy between the three telephone services.

**Maintaining Our IDD Business**

In 2002, for the first time since the service was launched more than three decades ago, IDD was not the largest revenue contributor. IDD service accounted for approximately 32% of total consolidated revenues in 2002, compared to 42% in 2001. Despite the declining trend, however, the IDD business still has considerable revenue potential. Hence, maintaining our IDD business has become the next highest priority after the development of

IDD 001 INDOSAT • IDD OO8 SATELINDO • 102 • 104 • IDD 001 INDOSAT • IDD OO8 SATELINDO • 102 • 10

# Developing a Fixed Access Customer Base

cellular business. This is achieved, among other things, by improving our level of services to major IDD subscribers and coordinating our marketing efforts between the IDD 001 and IDD 008 services. In addition, Indosat intends to minimise the decline of IDD and operator-assisted services through several initiatives including the use of customer appreciation and retention programmes, better market segmentation, improving customer service through one-on-one relationships between Account Executive and customer, enhancing the quality of operator-assisted services, and well-directed advertising campaigns.

### Synergy: IDD 001 - IDD 008

By year-end 2002, similar to the positioning strategy of Indosat's cellular business based on the unique strengths and characteristics of the respective brands, Indosat finalised plans for the implementation of a tiering strategy for the IDD 001 and IDD 008 services. Beginning in 2003, IDD 001 will be positioned as a high-quality, premium product for wholesale IDD users, whereas IDD 008 marketing will emphasise the "value for money" concept of the service directed to other segments of IDD users. In 2002, a joint-marketing programme was undertaken for Indosat's Indonesia Direct service and Satelindo's Hello Indonesia service from Saudi Arabia, serving the needs of Indonesian Hajj pilgrims.

4

### IndosatPhone

On August 1, 2002, Indosat launched the IndosatPhone service, providing domestic and international fixed-line telephone service for voice and data communications as an alternative to domestic telephony services in Indonesia. The IndosatPhone service offers plain old telephony service (POTS), integrated services digital network (ISDN) capability, direct dialling facility for incoming and outgoing calls (DID/DOD), and a central switching facility (CENTREX). The launch of IndosatPhone is consistent with Indosat's objective of becoming a full network and services provider, as well as providing the opportunity for Indosat to develop its own customer base.

### Indosat GlobalSave 17001

Entering the highly competitive Voice Over Internet Protocol (VoIP) telephony market, Indosat in 2002 launched its own VoIP service using the 17001 access code through the GlobalSave pre-paid telephone card. Despite a still limited telephone network capacity and interconnection handicap for not owning a domestic switching network, the GlobalSave 17001 service recorded a total volume of 209,250 paid minutes as at year-end 2002, comprising of local calls (43%) and international calls (57%) covering five major cities of Jakarta, Surabaya, Medan, Bogor and Bandung.

For its part, Satelindo also launched its VoIP service in 2002, naming it the Satelindo Yelo service.

# Closer to the Customers

**Customer Incentive Programme.** Customer retention programmes offer special incentives for wholesale users of IDD 001 service which meet certain qualifications. Monitoring the results of various IDD 001 incentive programmes during a six-month period in 2002 gave some indications of the reduced rate of decline of Indosat's IDD market share, compared to the period before the implementation of such incentive programmes.

**Indosat Apressia IDD 001.** An IDD 001 customer appreciation programme which has been one of Indosat's most successful programme for two years. Each international call made through the IDD 001 access code, the 101/104 international operator service or the Indonesia Direct service from overseas is automatically awarded Reward Points that are credited to the pre-registered telephone number participating in the programme. The accumulated points could be exchanged for attractive prizes provided in a prize catalogue. At the end of the programme, customers who earn up to a certain number of points or more are entitled to enter the grand prize draw.

**Customer Relationship Management.** In 2002, Indosat initiated a Customer Relationship Management (CRM) programme in all of its consolidated businesses, with the aim of enhancing service quality through better management of customer data. By the time the CRM will have been fully implemented in the year 2004, the various functions of marketing, sales, customer service and billing will have become fully integrated, with a single customer database instantly accessible from every customer service centers. The implementation of CRM began with the use of an e-Point system as a CRM tool to manage service processes related to new Indosat services such as IndosatPhone and GlobalSave. With regards to the implementation of CRM within the Indosat Group as a whole, Indosat has established the Indosat One Gallery as an integrated service center for the various services offered by Indosat, Satelindo, IM3 and IndosatM2.

**Indosat One Gallery** - One stop service for all IndosatGroup's services.

# A Commitment to Quality

The age old Batik has become a highly evolved art form that transcends time and economic value.
For hundreds if not thousands of years, the trade of Batik - a technique for dying colourful wax into cloth - has been handed down from one generation to another, and finds itself today as one of Indonesia's thriving industries which is depended upon by millions of people for their livelihoods.

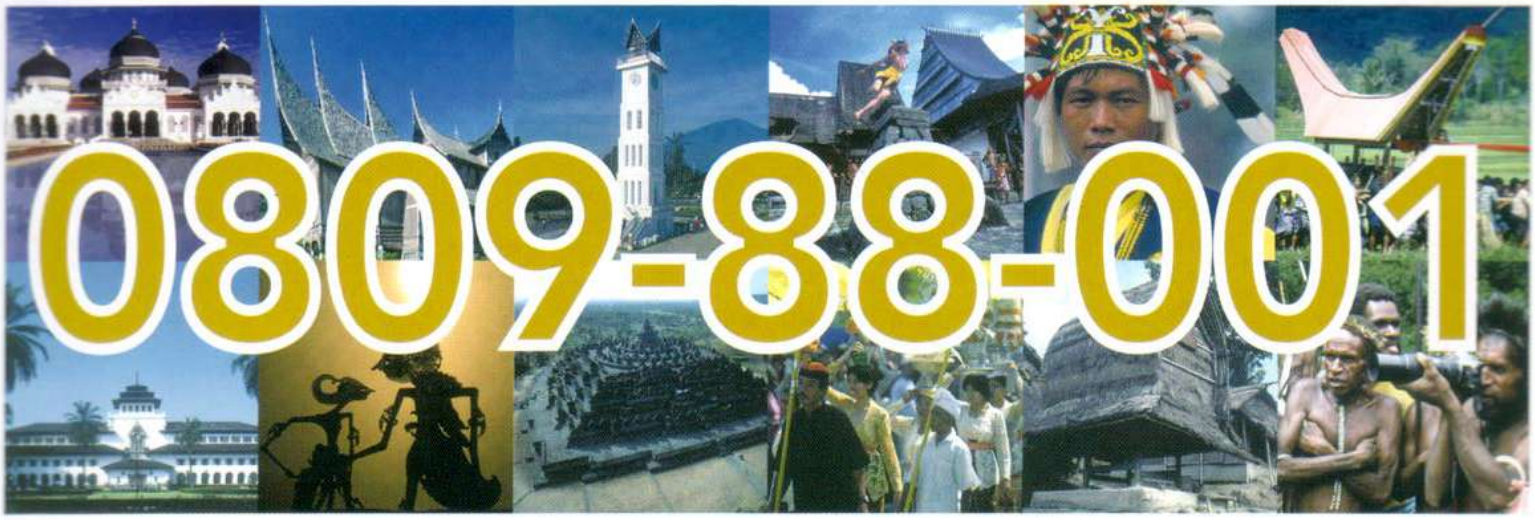
But for a few Batik master artists who are descendants of the artisans who first perfected this art form in the royal courts of pre-colonial Indonesia, Batik making is regarded as a form of devotion to process and perfection. Like all fine craftmanship, the finest and most intricately structured Batik designs are hand drawn, a single pattern at a time, line by line, and with painstaking care. Because once the process starts, the artist has to see it through to the end without a single mistake.

Indosat aspires to the same devotion and commitment to process and perfection, and to delivering the highest quality service possible to its customers. That's why "quality in products and services" is one of the key attributes that the public attaches to Indosat, in the recent public perception survey which also confirms Indosat's standing as an Indonesian company.

Dimanapun, manfaatkan kemudahan

# AKSES NASIONAL

# INDOSAT*net*




IM2 INDOSAT*net*

**GRATIS! BIAYA PENDAFTARAN SAMPAI DENGAN 30 JUNI 2003**

Kini dengan **Akses Nasional INDOSAT*net* 0809-88-001**, Anda bisa lebih leluasa. Akses nasional ini bisa Anda akses lebih dari 180 kota di Indonesia. Bagi pelanggan baru yang ingin menggunakan nomor tersebut, cukup mendaftarkan diri segera pada kantor IM2 Indosatnet di kota Anda atau nomor bebas pulsa 0800-1-900-900, (021) 7854 6988, fax 0800-1-900-901, (021) 7883 0666 dan kunjungi web sites kami di www.indosat.net.id.

Medan • Batam • Pekanbaru • Palembang • Jakarta • Bogor • Kerawang • Purwakarta • Bandung
Cirebon • Semarang • Yogyakarta • Solo • Surabaya • Malang • Balikpapan • Makassar • Manado

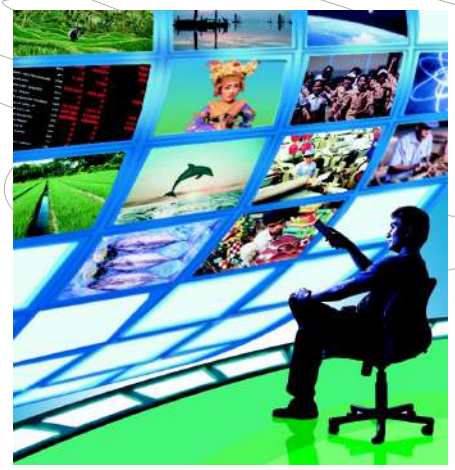
INDOSAT M2
Internet & Multimedia Services

INDOSATGROUP

# Multimedia, Data Communication & Internet (MIDI) Services

[Multimedia, data communications and Internet (MIDI) services contributed 18.7% of the total consolidated revenues of Indosat in 2002, growing by 14% from 2001. This growth reflects the increasing demand for integrated communications and information solutions among corporate users, regional governments and the general public in Indonesia.]

MIDI services comprise the fast-growing high-speed leased line and frame relay services from Indosat and Lintasarta, the increasingly convergent Internet and multimedia services from IndosatM2, the Palapa satellite transponder lease from Satelindo, and the internationally certified information technology solutions from Sisindosat.



IndosatM2 • Sisindosat • Aplikanusa Lintasarta • IndosatM2 • Sisindosat • Aplikanusa Lintasarta • IndosatM2 • Sisindosat • A

# *Pioneering Future Business with MIDI*

Aplikanusa Lintasarta

## Sustainable Growth

In recent years, the MIDI business which comprises multimedia, data and Internet services have grown at an encouraging pace. The following highlights the MIDI services provided by the Indosat Group in 2002.

## Multimedia Services

**VSAT IP.** Multimedia Access provides broadband solutions and internet access via satellite links for corporations, offering the capability of simultaneous transmission of voice, data and video (multimedia) to several different destinations at once, including to remote regions. The service is provided by Indosat and Lintasarta.

**IP-VPN.** The Virtual Private Network through Internet Protocol service uses packet-switching technology with TCP/IP protocols to link different types of computers or networks together without the need of a switched connection. The IP-VPN network operates through the ATM + MPLS backbone network, ensuring security, reliability and flexibility. This service is provided by Indosat and IndosatM2.

In addition to the above services, Indosat also provides Video Conference, ISDN and TV Telecast.

## Data Communications Services

**International Leased Line (IPLC).** A high-speed (64 kbps to 2 Mbps) digital leased line offering 24-hour point-to-point communication channel for voice, data and video transmissions. This service is provided by Indosat and Satelindo.

**VSAT.** A dedicated high-speed digital circuit for voice, data and video transmissions. The use of VSAT equipment for direct satellite transmissions makes it independent of public switched telecommunications networks. This service is provided by Indosat and Lintasarta.

**Frame Relay.** An enhanced packet-switched data communications system giving large format, high speed (64 kbps to 2 Mbps) and flexible bandwidth capability, ideal for domestic as well as international inter-LAN (Local Area Network) communications. This service is provided by Indosat and Lintasarta.

## Continued Growth in Data Communications

The growth of MIDI business is driven by the growth of data communications services and in particular the high-speed leased line and frame relay services provided by Indosat and Lintasarta. In line with the business development of corporations in Indonesia, Indosat's leased line services have tended to gravitate towards broadband solutions.

Lintasarta offers the "Totally Integrated Solution" which integrates data communications services with value-added services, including Internet access. Lintasarta's data communications services use cable, radio and satellite connections for a comprehensive solution to the need of data, voice and image transmissions, provided through individually packaged services which include leased line, VSAT Link and VSAT Net/IP services, as well as through corporate network services which support a totally integrated communications solution.

## Converging Multimedia and Internet Services

PT Indosat Mega Media (IndosatM2) as Indosat's subsidiary in multimedia and internet businesses continue to expand the variety of its services, which currently comprise a Cable TV

"Lintasarta undertook strategic steps to remain ahead of the competition, through the upgrading of our products as well as by developing our network infrastructure."

**Yoyo W. Basuki**
President Director, Lintasarta

subscription service, Internet Protocol (IP) based voice-data-and-image communications, and various e-commerce services. Two new services have been added to complement these services, namely the Multimedia Access and the Internet Protocol - Virtual Private Network (IP-VPN) services. In 2002, IndosatM2 emphasised more on providing dedicated round-the-clock Internet access service which is increasingly demanded by corporate customers, while dial-up internet access service for retail customers is provided via the access number of 08098801 currently available in eight major cities of Indonesia. IndosatM2 is also responding to the increasing demand for Cable TV subscriptions, among other things by engaging in strategic partnering with other Cable TV operators and pursuing local as well international investors who are engaged in the media business.

Meanwhile, the merger of PT IndosatCom, which provides business-to-business e-commerce services through the Internet, into

INDOSAT*M2*

"The post-merger Indosat Mega Media took up an enhanced logo and corporate identity in 2002 which reflects our new look and spirit."

**Brata T. Hardjosoebroto**
President Director, IndosatM2

IndosatM2 in 2002 resulted in better integration of Indosat's Internet and multimedia businesses. The merger was undertaken as part of the long-term transformation plan of Indosat to provide a one-stop total communications solutions in an effective, efficient and integrated form.

## Information Technology Services

The provision of information technology (IT) services as an integral part of MIDI services is carried out by PT Sisindosat Lintas Buana (Sisindosat), a majority-owned subsidiary of Indosat, which in 2002 entered its 12th year in business. In addition to information technology solution integration and outsourcing services,

"With more than a decade of service, Sisindosat's personnel ar e equipped with the international certifications enabling them to handle various information technology system platforms such as Oracle, Micr osoft, Cisco, Alcatel and HP , while the Sisindosat Training Center facility has also received ISO 9002 certification."

**Ardhin Ichwan**
President Director, Sisindosat

Sisindosat also provides information technology training facilities services, for which the Company is equipped with a Proficiency Center formally licenced to issue the international standard and globally recognised Prometric and VUE certifications.

## e-Government Initiative

In 2002, Indosat entered into an MOU agreement with the regional governments of nine Provinces in Sumatera to develop an electronic government (e-Government) information system and network called the Sumatera On Line. The system will provide an integrated information network linking these regional governments in Sumatera comprising of an Electronic Information System and a Decision Support System for enhanced decision making. This network will be developed to cover all regional governmental activities throughout Sumatera, relying on the resources of the IndosatGroup including IndosatM2 and Sisindosat.

# An Affinity for Technology

Since around the fifth century to when the oldest known surviving Kris today can be traced back, the Kris has symbolised the power and prestige of the bearer, as well as the supremacy of the metallurgy technology of the time.

A potent Kris is said to contain supernatural power within its winding blade which, in deference to this power, however, needs to be adorned with precious metal such as gold that is not only intricately designed with fine etchings on the exterior, but also embedded firmly along and in line with the winding contour of the blade - a real tribute to the feat of technology of the day.

Like the Kris that has come to symbolise the use of innovative technology to achieve a form of function and perfection, Indosat is also perceived as having an affinity for the use of advanced technology in its operations as well as products and services. The “use of advanced technology” is another key attribute that has come out of the recent public perception survey on Indosat.

## Salah ngerti, kan?

Gara-gara saluran komunikasi yang buruk, "*eighty*" terdengar menjadi "*eighteen*". Untuk menghindari salah pengertian, makanya gunakan SLI 001 atau SLI 008. Kualitas suaranya *oke*, begitu jernih tanpa gangguan, pesan yang disampaikan terdengar sangat jelas. Hanya SLI 001 dan SLI 008 yang dapat menjamin kualitas suara yang cepat dan jernih.

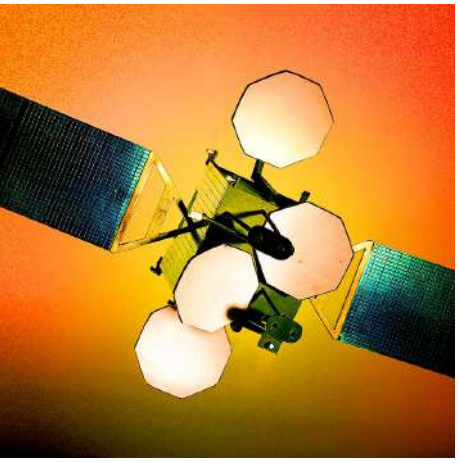
**Pastikan Kualitas SLI dari *INDOSAT***

SLI 001 008 SLI

# Network Infrastructure and Access

[In support of Indosat's integrated network and network services, Indosat continues to expand its networks comprising submarine cables, satellite communications links, as well as its inner- and inter-city networks which since 2002 have included the Indosat Super Corridor Network and last-mile access to customers.]

Indosat delivers its services through a comprehensive range of backbone and access networks which today comprises of a satellite network, submarine cable networks, international and domestic exchanges, and inter-city and inner-city fiber optics networks.



Palapa C2 Satellite • Fiber Optics Cables • Submarine Cable System

**Network Infrastructure**
Indosat's services are delivered over its International gateways, satellite networks, land and submarine cable networks, cellular networks and microwave transmission system.

**Gateway Exchanges**. As of year-end 2002, Indosat's gateway exchanges had total bandwidth capacities of 633.8 Mbps for voice transmission, and 461.4 Mbps for data transmission. Bandwidth capacity is usually kept higher than usage capacity which is set at approximately 80% of total capacity, in anticipation of traffic growth.

**Satellite Networks.** As of year-end 2002, Indosat had satellite bandwidth capacities of 42.2 Mbps and 1.6 Mbps for voice and data transmissions, respectively, which are used mainly to access the Intelsat satellite system and, to a lesser extent, the Inmarsat satellite system. While Satelindo had 24 standard C-band 36 MHz transponders and 4 Ku-band 72 MHz transponders on the Palapa C2 satellite covering 35 Asia-Pacific nations.

# Developing a Comprehensive Network

**Submarine Cable.** As of year-end 2002, Indosat had acquired part ownership of 9 (nine) submarine cable systems with a total bandwidth allocation of 1,214.69 Mbps, including the Asia Pacific Cable Network (APCN) with 328.38 Mbps, APCN-2 with 288.00 Mbps, SEA-ME-WE 3 with 258.82 Mbps, SEA-ME-WE 2 with 155.14 Mbps, and TPC-5 with 100.00 Mbps. Whereas Satelindo owned 216.1 Mbps in six submarine cable systems.

**Cellular Networks.** The cellular networks of Satelindo and IM3 are supported by cell locations or base stations that receive and transmit radio signals as the basis of cellular communications, base station controllers and cellular switching exchanges with a capacity to serve a total of 3.7 million cellular customers. Satelindo operates on the 10MHz frequency of the GSM 900 spectrum and 5MHz, while IM3 operates on the 15 MHz frequency of the GSM 1800 spectrum.

### Indosat Super Corridor

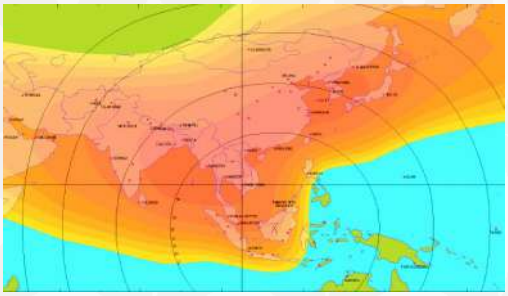
One of Indosat's main achievements in terms of telecommunication network development during 2002 was the launch of the Indosat Super Corridor (ISC), or also referred to as the Indosat Metropolitan Network (IMAN) which currently links 32 major office towers and hotels in Jakarta's Golden Triangle area.

### Fixed-line Telephone Network

In 2002, Indosat began with the construction of fixed-line telephone networks in Jakarta, Surabaya, Batam and Medan. The Jakarta and Surabaya networks have commenced operations since August 1, 2002. This development included the upgrading of Indosat's international gateways in the four cities into public switching telecommunications networks that could handle up to 20,000 telephone lines and last-mile connections to Indosat's customers. This marked the start by Indosat to provide domestic and international telephony services directly to customers, alongside other telecommunication providers in the country .

### Fixed Wireless Access

By means of Revenue Sharing Scheme ('Pola Bagi Hasil') with a consortia partner, Indosat has initiated the development of a fixed wireless telephone network using the CDMA 2000-IX or Code Division Multiple Access technology platform known for its practicality and cost effectiveness. The plan comprises of constructing a total of 450,000 telephone lines for Greater Jakarta and 250,000 telephone lines for Greater Surabaya which are expected to be operational in late 2003.



# Human Resources Development

[Indosat sets its main goal in human resources development going forward is to build a commonly shared vision among people of the Indosat Group.]

## *Preparing Our People for the Future*

Human Resources Development will be geared to mold our people in line with the growth of Indosat Group.

The emphasis of human resources activities in 2002 was placed on the initial preparations for the Indosat transformation programme. Some of the preparatory steps that had been undertaken included several exchange programmes among employees of the IndosatGroup to prepare themselves for the changes that lie ahead as well as to broaden their horisons or familiarise with different roles and functions in their jobs.

**Developments in Human Resources**

As of year-end 2002, Indosat employed a total of 2,373 personnel, of which 984 people possess an engineering educational background and the remaining personnel with a variety of educational backgrounds.

Of the total number of employees, 1,190 personnel have a bachelor's degree and diploma qualifications or higher. These numbers do not include 1,959 personnel who are currently employed in other companies belonging to the IndosatGroup.

In 2002, Indosat continued its human resources development in the form of various programmes involving training, education, career development and team building activities by the Company and its subsidiaries. Among some of the training and education programmes undertaken during the year at the Indosat Training & Conference Center (ITCC) facility in Jatiluhur were as follows.

Fostering Teamwork • Indosat Training & Conference Center • Outbound

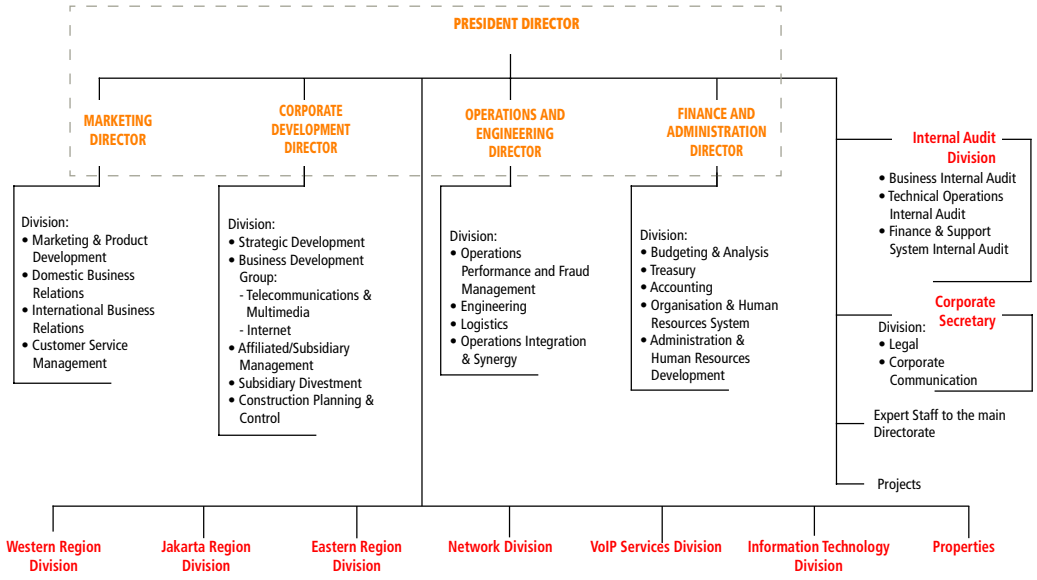
Basic Training which has continuously evolved from year to year continued to be provided for new recruits in 2002 to prepare them for a challenging career with Indosat.

Developmental Training Programmes in 2002 meanwhile focused on enhancing project management capabilities with respect to the development of a domestic telecommunications network by Indosat.

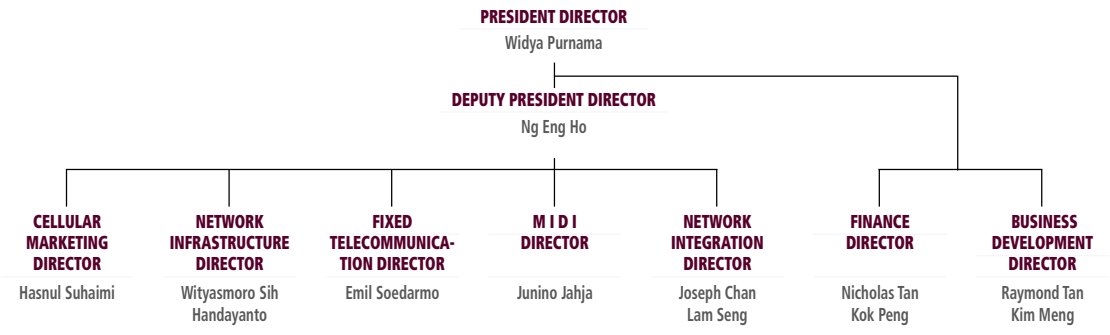
In addition to this, Indosat also carried out a Competency Development Programme which comprised of 33 different trainings attended by 2,891 personnel, and an Advancement Training Programme which constituted a formal education programme in which Indosat sponsored selected personnel to undertake graduate studies at leading universities at home and abroad.

Entering its 7 year of service in 2002, the Indosat Training & Conference Center at the Company's Earth Station Complex in Jatiluhur continued to earn a growing reputation as a "learning centre of excellence" in both national and international scope. This is evident from the increasing use of ITCC's training facilities by leading Indonesian corporations such as Unilever and Astra International, as well as by employees of overseas telecommunications operators.

## Organisational Structure as at December 2002




## Organisational Structure as of April 2003



# Indosat and the Community

"Advancing the cause of science in Indonesia with Indosat" is the motto of the TV edutainment programme Indosat Galileo which succeeded in cultivating greater interest for the physical sciences among students.

The best performance is always demanded of Indosat as a publicly-held company. But, while always striving for optimum performance, Indosat realises that the Company cannot prosper alone, without the community growing and prospering together. Inequalities in education and welfare among societies will hinder the growth of the nation, as well as that Indosat. Hence, Indosat is also mindful of attending to the needs of communities whenever it can.

Through Indosat Galileo, an edutainment programme aired by a national television broadcasting station, Indosat succeeded in nurturing a growing interest among the general public towards the phenomena of natural sciences that occur in everyday life.

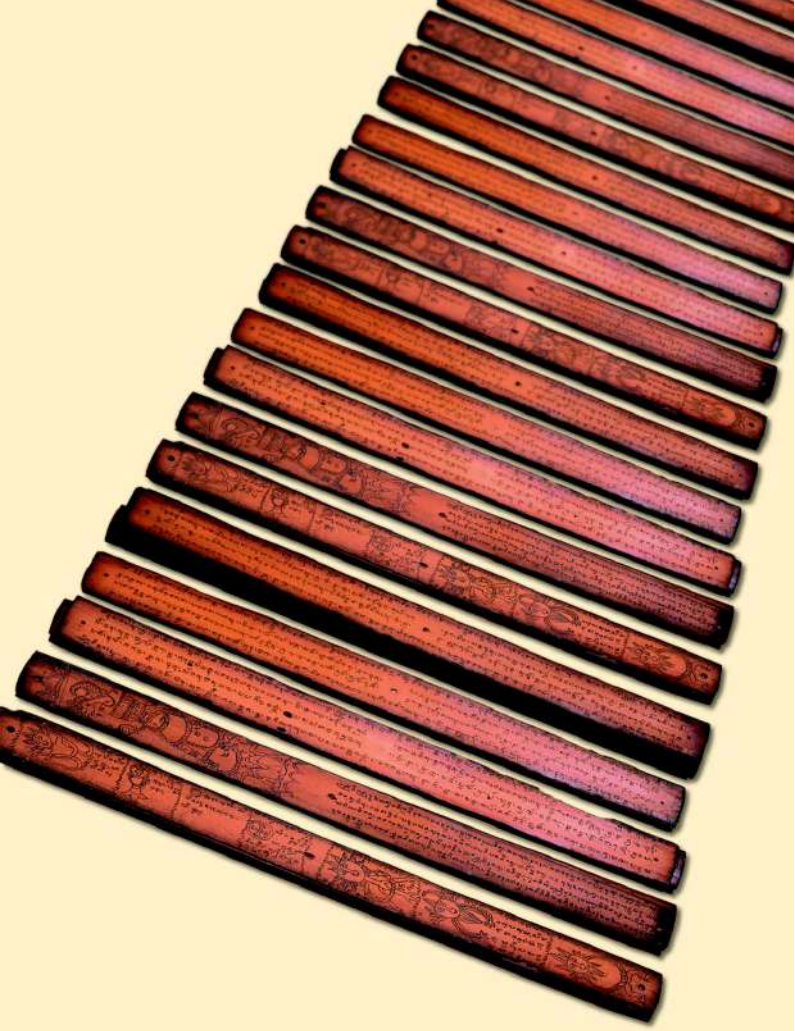
Indosat also provides opportunities for university students as well as university graduates to attend an apprenticeship programme at Indosat, in order to prepare them to enter the real work environment.

Indosat continues to be involved in various government-sponsored programmes such as in state ceremonies, either through material donations or other forms of participations. An example of this was Indosat's participation in the training of the 60-member Paskibraka team, whose members are specially selected from each of 30 provinces of Indonesia, two representatives to a province, for the national flag raising and folding ceremonies on Indonesia's independence day of August 17. Indosat also developed a website covering the Paskibraka month-long activities.

During religious festivities such as Idhul Adha, Waisak or Christmas, the IndosatGroup never fails to donate to charities, orphanages and other social foundations for the less fortunate. Donations are also provided as relief programmes in aid of disaster victims such as the landslides and earthquake of Lampung, the floods in Jakarta, the bomb attacks in Bali and many others.

In the sports arena, Indosat's involvements include its sponsorship of the Ninth National Bowling Championship which is part of the annual agenda the Indonesian Bowling Association.

Charity Programme on ISAT Anniversary •National Bowling Championship • Paskibraka



# A Road to Progress

The Lontar leaves manuscript is one the earliest known forms of organised writing to have existed in ancient Indonesia at around the 6th and 7th century. It is a testimony of mankind's strong desire to search for knowledge and to preserve it for future generations. The ability of mankind to organise, store and retrieve data many ages ago - multiplied a million-fold by today's computer age standards - had set us on the never-ending journey in search of knowledge, wisdom and, ultimately, excellence.

Over the years, Indosat has evolved into a learning organisation that constantly strives to expand its horizons, sharpen its skills and share the fruits of its knowledge - a fact that has not gone unnoticed.

In the public perception survey, Indosat was acknowledged as a "center of excellence" that is considered to have an educative influence on the general public, as one of the leading proponents of Indonesia's progress into the information age.

# Operating and Financial Review

The following discussion should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2000, 2001 and 2002 included elsewhere in this annual report. The audited consolidated financial statements have been prepared in accordance with the Indonesian GAAP which differs in certain respects from the U.S. GAAP. See the Notes to the audited financial statements for a summary of certain material differences between the Indonesia GAAP and the U.S. GAAP.

### Overview and Business Activities

The telecommunications market in Indonesia has undergone deregulation following the enactment of Law No. 36 of 1999. Historically, only Indosat and Telkom, as the incumbent public telecommunications operators, or persons acting in cooperation with Indosat or Telkom, had the right to provide public telephone services or build and operate telecommunications network in Indonesia. Following the deregulation, the Government liberalised Indonesia's mobile telecommunications market starting in 1995 and began the liberalisation of the local fixed network in 2002, domestic long distance and international direct dialling market in 2003.

Due to the deregulation and low penetration rate of telephone services, cellular market grew very rapidly. Indosat was the second largest provider of cellular services through controlled subsidiaries, Satelindo and IM3. Indosat acquired 25% shares of Satelindo from DeTeAsia in June 2002 to gain full control of Satelindo and increased its exposure to the rapidly growing cellular business. Furthermore, Indosat injected additional capital amounting to US$ 75 million into Satelindo to strengthen Satelindo's capital structure and release several restrictive debt covenants, i.e. capital expenditure restriction, cash sweep arrangement and dividend payment restriction.

In August 2002, Indosat entered into domestic telecommunications business having received its license to provide local fixed network services in the greater Jakarta and Surabaya areas. Indosat deployed approximately 13,000 lines in those areas. In the same month, Indosat announced the divestment of PT Pramindo Ikat Nusantara, a KSO consortium operating in Sumatera.

Also in August 2002, Indosat announced its strategic initiative to become a cellular focused full network and services provider. This will be achieved through a transformation process which involves the creation of synergies between Satelindo and IM3 as well as preparation towards the consolidation of Satelindo and IM3 into Indosat.

In November 2002, Indosat successfully completed the offering of the Indosat Bond II and Indosat Syariah Mudharabah Bond totalling Rp 1.25 trillion. These bonds were listed on the Surabaya Stock Exchange on November 8, 2002.

In December 2002, the Government of Indonesia ("GoI"), acting through the Ministry of State Owned Enterprise, announced the completion of Indosat's Privatisation Programme. GoI announced that it had divested 41.94% of Indosat's shares which it previously owned to Singapore Technologies Telemedia Pte. Ltd., acting through Indonesia Communications Limited ("ICL"). On December 31, 2002, GoI owned 15% shares of Indosat and ICL owned 41.94%. The remaining 43.06% shares were held by public shareholders.

## SUBSEQUENT EVENTS

### Change of Legal Status

In February 2003, Indosat received the approval from the Investment Coordinating Board (BKPM) of the Republic of Indonesia for the change of its legal status as a Company Under Foreign Investment Arrangement (PMA). Subsequently, on March 21, 2003, Indosat received the approval from the Minister of Justice and Human Rights on the amended Articles of Association of the Company stipulating the change of the legal status as a Company Under Foreign Investment Arrangement (PMA).

### Development of Fixed Wireless Services

Following a selection and evaluation process, Indosat announced the selection of Mega Asia Consortium as the Partner ("Partner") in the Indosat Partnership Program, and signed the Agreement of Principals during the same month. Indosat expects to finalise the operating agreement and preparation for the construction of approximately 700,000 fixed wireless lines in Jakarta and Surabaya over a period of three years.

### Launching of Indosat Transformation Programme

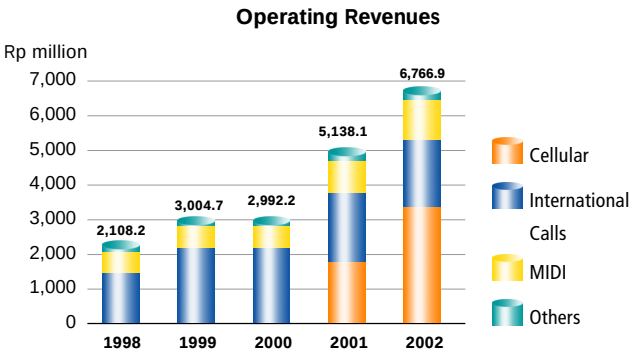
Indosat undertook the initial preparation and strategy development of its planned Transformation Programme comprising management, business and operational aspects. This involved participants from all companies within the Indosat Group. For this programme, Indosat appointed Hay Group/AT Kearney as the strategic management consultant, and ING as the financial advisor. It is expected that by end of 2003 the legal process to consolidate Satelindo and IM3 into Indosat will have been completed.

## BUSINESS AND FINANCIAL OVERVIEW

Year ended December 31, 2001 compared to year ended December 31, 2002.

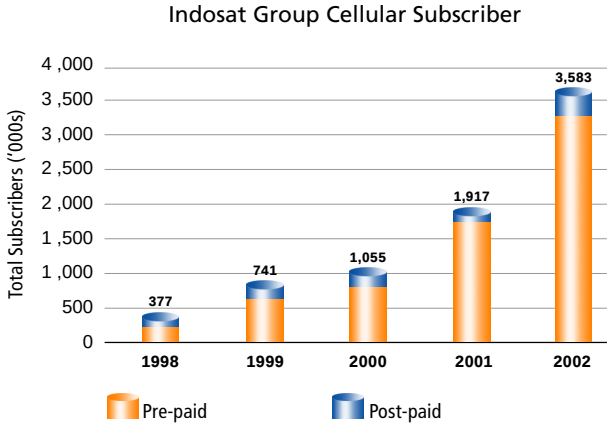
Effective May 31, 2001, following the increase of Indosat's ownership of Satelindo to 75.00%, the net earnings of Satelindo and its subsidiaries were consolidated into Indosat's financial statements. Prior to that date, Indosat's 30.00% equity interest in Satelindo was accounted for using the cost method. Between January 1, 2002, and June 20, 2002, Indosat's 75% equity interest in Satelindo and its subsidiaries was accounted for with the consolidation of their net earnings into the financial statements of Indosat. From June 20, 2002, Indosat's ownership in Satelindo increased from 75% to 100% following the acquisition of additional 25% shares of Satelindo from DeTeAsia. As a result of the above, the financial figures for the years ended December 31, 2002 and 2001 were not directly comparable.

### Operating revenues




Overall revenues increased from Rp 5,138.1 billion in 2001 to Rp 6,766.9 billion in 2002, primarily due to consolidations of Satelindo's cellular services revenues and the launch of IM3. During this same period, revenues from MIDI services also increased considerably, compensating for the decrease in other services.

**Cellular Services.** For the year ended December 31, 2002, Indosat posted cellular operating revenues of Rp 3,271.7 billion, accounting for 48.4% of total operating revenues.



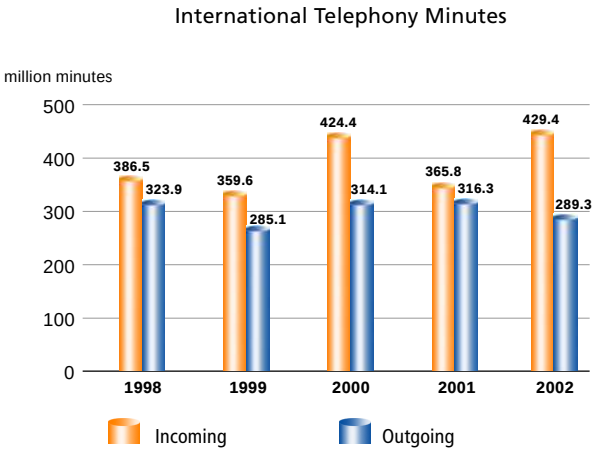

CAGR 1997-2002: 58.2% & Growth 2001-2002: 87%

As of December 31, 2002, Indosat's cellular business reported a growth of approximately 87.0% in the number of subscribers compared to the same period last year. As of December 31, 2002, Indosat had 3,582,651 cellular subscribers, a net addition of approximately 1,665,651 subscribers during 2002.

In the fourth quarter of 2002, the impact from additional roll-out capacity as well as the establishment of IN Platform supported Satelindo's effort to achieve subscriber base and ARPU targets. Satelindo also launched aggressive sales and marketing efforts such as: Matrix Family and Friends (family and friends program for postpaid subscribers), MERIAH or Mentari Berhadiah (affinity program for Mentari dealership and end users), and Mudik Makin Asyik (homecoming promotion program).

As of December 31, 2002, IM3's subscriber base was 511,276 subscribers, a net addition of 363,276 subscribers in 2002. This was driven by the strong promotional programme for prepaid services among IM3 target customers.

**International Telecommunications Services.** Operating revenues from international telecommunications services decreased by Rp 19.6 billion, or 0.9%, from Rp 2,157.5 billion in 2001 to Rp 2,137.9 billion in 2002. International telecommunications services revenue represented 31.6% of operating revenues in 2002 compared to 42.0% in 2001. Total call volume from both Indosat and Satelindo increased by 5.4% from 682.1 million minutes in 2001 to 718.7 million minutes in 2002. Total incoming traffic from both Indosat and Satelindo increased by 17.4% from 365.8 million minutes in 2001 to 429.4 million minutes in 2002 due to a higher volume commitment, and "win-back" programme. Whilst outgoing traffic of both Indosat and Satelindo decreased by 8.5% from 316.2 million minutes in 2001 to 289.3 million minutes in 2002 due to slower economic growth and increased VoIP activities.



**MIDI Services.** In 2002, operating revenues from MIDI services represented 18.7% of total operating revenues. Operating revenues from MIDI services increased by Rp 157.9 billion, or 14.3%, from Rp 1,105.1 billion in 2001 to Rp 1,263.0 billion in 2002, primarily due to increased revenues from satellite lease and frame relay. Satelindo contributed satellite lease revenues totaling Rp 294.1 billion and Rp 234.9 billion for the years ended December 31, 2001 and 2002, respectively. Frame relay revenues meanwhile are generated by Indosat and Lintasarta. Indosat's frame relay services recorded a slight growth of 1.7% from 631 ports in 2001 to 642 ports in 2002, contributing Rp 285.5 billion of revenues. Lintasarta's frame relay services grew strongly by 35.2% from 2,229 access points in 2001 to 3,014 access points in 2002. World Link and Direct Link revenues decreased from Rp 311.0 billion in 2001 to Rp 302.7 billion in 2002.

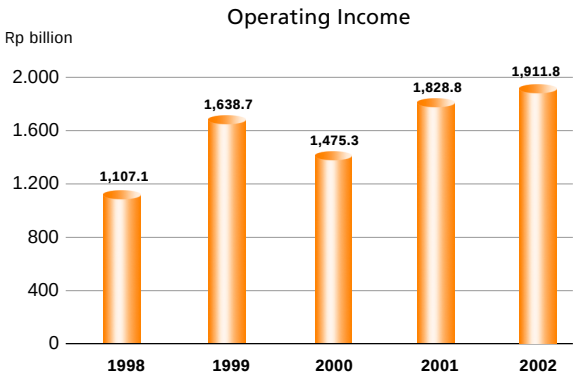
**Other Services.** Operating revenues from other services decreased from Rp 105.6 billion in 2001 to Rp 94.4 billion in 2002. As of December 31, 2002, revenues from other services represented 1.4% of total operating revenues. Revenues from international telex and telegram services continue to erode as customers migrate to other higher-quality services offered at a lower price.

### Operating expenses

Operating expenses increased by Rp 1,545.8 billion, or 46.8%, from Rp 3,309.3 billion in 2001 to Rp 4,855.1 billion in 2002, primarily due to increases in depreciation, personnel, leased circuits, other cost of services, marketing and administration and general expenses, as a result of the full year consolidation of Satelindo in 2002.

### Operating income

Operating income increased by Rp 83.0 billion, or 4.6%, from Rp 1,828.8 billion in 2001 to Rp 1,911.8 billion in 2002.




### Other income (expenses)

Other income (expenses) decreased by Rp 818.0 billion, or 461.1%, from an income of Rp 177.4 billion in 2001 to a loss or expense of Rp 640.6 billion in 2002. In 2002, other income (expense) consists of amortisation of goodwill of Rp 753.5 billion, provision for doubtful interest receivables from convertible bonds of Rp 287.8 billion, and adjustment of trade account receivables from Telkom of Rp 118.0 billion, as well as interest expense of Rp 566.9 billion and others-net of Rp 130.5 billion. Although Indosat posted gains in interest income of Rp 822.3 billion, and foreign exchange-net of Rp 393.8 billion, these gains were lower than the aforementioned expenses, resulting in an other expenses balance of Rp 640.6 billion for the year under review.

### Equity in net income of associated companies

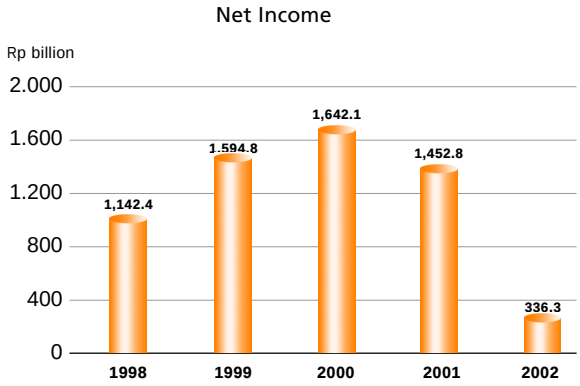
Equity in net income of associated companies decreased by Rp 60 billion, or 45.4%, from Rp 132.3 billion in 2001 to Rp 72.3 billion in 2002. In 2002, we recognised a Rp 70.2 billion gain from MGTI which is the major contributor to this equity in net income from associated companies.

### Taxation

Income tax expense-net increased Rp 362.2 billion, or 87.9%, from Rp 412.2 billion in 2001 to Rp 774.4 billion in 2002 primarily due to the increase in deferred income tax expense. Current income tax expense decreased Rp 404.6 billion, or 62.2%, from Rp 650.5 billion in 2001 to Rp 245.9 billion in 2002. Deferred income tax expense increased Rp 766.8 billion, or 321.8%, as a result of the change from deferred income tax benefit of Rp 238.3 billion in 2001 to a deferred income tax expense of Rp 528.5 billion in 2002. Current income tax expense represented 30.5% and 18.3% of income before income tax in 2001 and 2002, respectively.

### Net income

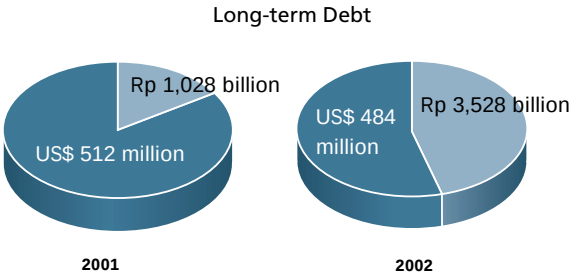
Despite improved operating results from 2001 to 2002, our net income decreased Rp 1,116.5 billion, or 76.9%, from Rp 1,452.8 billion in 2001 to Rp 336.3 billion in 2002, due to the above operating and non-operating financial performances.



## LIQUIDITY AND CAPITAL RESOURCES

Similar to most telecommunications companies that own, rather than lease, their networks and facilities, our business is capital intensive. We have experienced significant changes to our financial structure since the acquisition of Satelindo shares from Telkom and Bimagraha in 2001 and from DeTeAsia in 2002. Our financial structure has also significantly been influenced by the further investing activities such as rolling out new infrastructures of Satelindo and IM3 in 2002. While our financing activities such as the issuance of Indosat Bond II, financing through BNI and BCA US$ credit facility, and the realisation of IM3's Rupiah syndicated loan from several Indonesian banks have also changed the Company's financial structure.

In June 2002, Indosat injected US$ 75 million capital into Satelindo in order to release the restrictions on capital expenditure stipulated under Satelindo's debt agreements. Following the capital injection, Satelindo was able to realise its capital expenditure in 2002 in order to increase its capacity and establish the IN platform/technology equipment to improve its cellular service quality. The terms of the debt restructuring had previously limited Satelindo's ability to borrow for the purpose of funding capital expenditures.




### Cash and cash equivalents

Our cash position was Rp 2,409.9 billion, Rp 4,637.8 billion and Rp 2,831.8 billion as of December 31, 2000, 2001 and 2002, respectively. In previous years prior to 2001, Indosat met its working capital and capital expenditure requirements through cash flows generated from operations and, in the case of certain submarine cables and gateways, primarily through funds being lent by the Government.

The Company used the proceeds from the sale of 35% shares of Telkomsel to acquire 22.5% shares of Satelindo from Telkomsel and a further 45% shares of Satelindo from Bimagraha, both of which were executed in 2001. In addition, the Company used the proceeds from the Indosat Bond I issuance amounting to Rp 1.0 trillion to finance IM3 infrastructure development in 2001. However, the Company found itself short of cash in 2002 while it had had to acquire additional 25% shares of Satelindo from DeTeAsia and inject a further US$ 75 million for Satelindo to release Satelindo's debt covenants. To finance this acquisition and capital injection, the Company obtained bridging facilities in the amount of Rp 1.5 trillion from Bank Mandiri and US$ 75 million from Bank Central Asia (BCA). These credit facilities were refinanced by BCA and Bank Negara Indonesia (BNI) US$ long term credit facilities. As of December 31, 2002, the balance of Indosat's BCA US$ long term credit facility was US$ 40 million, the balance of Indosat's BCA US$ short-term credit facility was US$ 25 million (which was fully retired by Indosat on January 31, 2003), and the balance of Indosat's BNI US$ credit facility was US$ 75 million.

The net increase in cash and cash equivalents in 2000 and 2001 amounted to Rp 506.3 billion and Rp 1,032.0 billion, respectively. Whereas in 2002, the Company experienced a net decrease in its cash and cash equivalents. Cash and cash equivalents at year end 2002 were Rp 2,831.8 billion which were derived from a beginning balance of cash and cash equivalents amounting to Rp 4,637.8 billion, minus a decrease in cash and cash equivalents during 2002 of Rp 1,807.9 billion, plus beginning balance of cash and cash equivalents from new subsidiaries acquired amounting to Rp 1.9 billion.

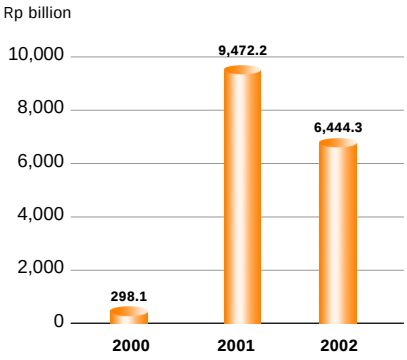
### Contractual Obligations and Commercial Commitments

As of December 31, 2002, the Company had contractual obligations in the amounts of US$ 133.81 million in foreign currency contracts and Rp 92.98 billion in Rupiah-denominated contracts, both of which will be repaid in several stages until 2007 (please refer to note 29 "Commitments and Contingency" in the Notes to the Audited Consolidated Financial Statements).

### Capital expenditures

During 2001 and 2002, Indosat made capital expenditures totaling Rp 9,472.2 billion and Rp 6,444.3 billion, respectively. The capital expenditures during 2002 were designed to strengthen Indosat's position as a cellular focused fully-integrated network and telecommunications services provider. Its capital expenditures in 2002 included: (i) Rp 5,874.1 billion for development of Indosat's cellular services, including the acquisition of 25% shares of Satelindo from DeTeAsia and additional capital injection into Satelindo; (ii) Rp 101.7 billion for improvements to existing international telecommunication business and other fixed businesses; (iii) Rp 452.0 billion for expansion of MIDI services primarily the development of Indosat's backbone and Internet businesses especially the capital expenditures made in IM2, the Company's subsidiary which provides multimedia and internet services and (iv) Rp 16.5 billion for other services.

**Capital Expenditure**




## RISKS FACTORS

*The Government, as the majority shareholder of Telkom being Indosat's major competitor, may give priority to Telkom's business than to Indosat's.*

The Government currently owns a 15.00% equity stake and is also the holder of the "Series A" share of Indosat, which provides special rights over certain matters, including the appointment and removal of the Commissioners and Directors of Indosat. At the same time, the Government also owns 51.19% equity stake in Telkom, Indosat's major competitor in cellular, MIDI and international telecommunications services. There can be no assurances that the Government of Indonesia will treat Telkom and Indosat equally when considering future decisions and policies.

The Government has recently sold its 41.94% shares in Indosat to ICL, and therefore ICL became the new controlling shareholder of Indosat replacing the Government's previous position. Indosat expects the participation of ICL, as the new shareholder of Indosat, will lead to the transfer of technology and expertise from ICL to Indosat, and strengthening of Indosat's capital structure of Indosat. However, there is no assurance that the new controlling shareholder will exert its influence in a way that benefits Indosat and the other shareholders.

*Indosat operates in a legal and regulatory environment that is undergoing significant reforms. Such reforms may result in increased competition, reduced margins and reduced revenues, among other things, all of which may have an adverse effect on Indosat's financial condition and results of operations.*

Indosat competes principally with other nationwide telecommunications providers in Indonesia. As the reform of the telecommunications sector continues, other entities, potentially with greater resources than ours, may enter the Indonesian telecommunications sector and compete with us in providing telecommunications services. There can be no assurances that Indosat will be able to compete successfully with other domestic and foreign telecommunications companies or that increased competition will not have a material adverse effect on our financial condition or results of operations. This shift in focus by the Government may result in increased competition that may adversely affect Indosat's financial condition and results of operations.

*Indosat and Satelindo depend on the PSTN and other cellular providers' networks, and such reliances may affect negatively on the performance of both our IDD services, resulting in substandard performance issues that we may be unable to resolve.*

All switched calls carried by Indosat and Satelindo either originate or terminate on Telkom's domestic telephone network or other cellular operator's network, which we do not control. Demand for our international services will depend, to a significant degree, on the development, quality and maintenance of Indonesia's domestic telephone network.

The entry of Telkom, an incumbent in Indonesia, into the international telecommunications business would adversely affect Indosat's and Satelindo's international business margins, results of operations and financial condition.

Telkom announced that it will enter the IDD market in August 2003 after liberalisation of the telecommunications sector. Telkom's entry into the IDD market would pose a significant competitive threat to Indosat. If Telkom enters the IDD market, Indosat and Satelindo would likely suffer loss of market share, declining margins and revenues and other adverse effects on the financial results of their international businesses.

*Indosat may not have the capital resources to remain competitive in the telecommunications industry.*

The delivery of telecommunications services is capital intensive. In order to be competitive, Indosat must continually expand, modernise and update our technology, which involves substantial capital investment. No assurances can be given that we will have sufficient capital resources to develop our cellular infrastructures or update other technology to the extent necessary to remain competitive in the Indonesian telecommunications market.

*Competition from other Indonesian telecommunications providers may adversely affect our cellular business margins, results of operations and financial condition.*

Our cellular businesses compete primarily against Telkomsel and Excelcomindo. Telkomsel is predominantly owned by Telkom, an Indonesian telecommunications industry incumbent, and Singapore Telecommunications Limited, one of the largest telecommunications providers in the Asia Pacific region. This shareholding combination creates financial and operational resources which are significantly greater than ours.

*The Government may adjust or fail to adjust tariffs resulting in an adverse effect on our financial condition and results of operations.*

Tariff rates set by the Government may be changed in the near future due to further deregulation of the telecommunications sector in Indonesia. Such future changes, if they occur, may adversely affect our financial condition and results of operations.

*Satelindo's future financing efforts may be subject to certain restrictive covenants related to its debt restructuring which place limitations on its ability to incur additional indebtedness as well as require Satelindo to make mandatory prepayments of existing debt from new financing proceeds.*

*Devaluation or volatility of the Rupiah against the U.S. dollar could adversely affect our financial condition and results of operations.*

Changes in exchange rates have affected and will continue to affect our net financial results and cash flows. Most of our debt obligations and a majority of our capital expenditures are, or are expected to be, denominated in U.S. dollars. Our revenues within Indonesia are generally denominated in Rupiah. We may also incur additional long-term indebtedness in currencies other than the Rupiah, including the U.S. dollar, to finance further capital expenditures. We do not hedge our foreign currency exposure. No assurances can be given that we will be able to manage our currency exchange rate risk successfully in the future or that we will not be adversely affected by our exposure to currency exchange risks.

*Indosat may be unable to implement the technological changes necessary to remain competitive.*

The telecommunications industry is subject to rapid and significant changes in technology. We may face increasing competition from technologies currently being developed or which may be developed in the future. New technologies, services or standards could require significant changes to our business model, the development of new products or the provision of additional services. No assurances can be given that our technologies will not become obsolete, or be subjected to competition from new technologies in the future, or that we will be able to acquire new technologies on reasonable terms necessary to compete in changed circumstances.

*Certain operating risks may adversely affect our financial results of operations.*

The operation of our domestic and international telecommunications services could be adversely affected by events such as the breakdown of equipment, difficulties or delays in obtaining imported spare parts and equipment, labour disputes, fire, natural disasters, industrial accidents, political insurrection or armed conflict and the need to comply with Government directives.

*The consolidation of Indosat, Satelindo and IM3 may not be implemented or, otherwise, its result may not be in line with our plan.*

Indosat has recently announced its plan to consolidate Satelindo and IM3 to Indosat, with the main purpose of gaining operational efficiency based on our cellular focused Full Network and Services Provider platform. There is a possibility that we may have difficulties in implementing the consolidation plan if, for instance, we have to enter into an information system and billing statement integration that our creditors may raise objections to. On the other hand, if we do implement our consolidation plan, there is also the possibility that the purpose of such consolidation, i.e. cost efficiency in the future, may not be achieved. In addition, we should also anticipate for any other possibilities of risks which may arise in every level of our stakeholders.

## INFORMATION FOR SHAREHOLDERS

### Capital Stock

Authorised Capital:

Rp 2,000,000,000,000 consisting of 4,000,000,000 shares: 1 A share and 3,999,999,999 B shares with a nominal value of Rp 500 per share.

Shares Issued and Fully Paid:

1,035,500,000 shares consisting of 1 A share and 1,035,499,999 B shares with a nominal value of Rp 517,750,000,000 consisting of:

a. Government of Republic of Indonesia, 1 A share and 155,324,999 B shares
b. Indonesia Communications Limited, 434,250,000 B shares
c. Public, 445,925,000 B shares

Percentage of ownership more than 5% as at 31 December 2002:

1. Indonesia Communications Limited 41.94%
2. Government of Indonesia 15.00%
3. PT Jamsostek (Persero) 5.79%

### Annual Report on Form 20-F for 2002

This Annual Report of PT Indonesian Satellite Corporation Tbk contains much of the financial information that will be included in the 2002 Annual Report on Form 20-F to be filed with the U.S. Securities and Exchange Commission. A copy of Indosat 2002 Annual Report on Form 20-F is available by writing to:

Corporate Communications Division of Indosat
Jl. Medan Merdeka Barat No. 21, Jakarta 10110, Indonesia
Tel. : (62-21) 386 9614, 3000 1340
Fax. : (62-21) 380 4045
E-mail : investor@indosat.com

### Investor Inquiries and Request

Investor inquiries may be directed to:

Corporate Communications Division of Indosat
Jl. Medan Merdeka Barat No. 21, Jakarta 10110, Indonesia
Tel. : (62-21) 386 9614, 3000 1340
Fax. : (62-21) 380 4045
E-mail : investor@indosat.com

### World Wide Web

Financial statement filings, shareholders information, press releases and general news about Indosat may be accessed via the following address:
http://www.indosat.com

### Transfer Agent and Registrar

PT EDI Indonesia is the principal transfer agent for Indosat's common stock. The Bank of New York is the custodian bank which issued the American Depositary Receipt (ADR) used for the trading of Indosat's shares at NYSE. Questions from registered ADR holders on dividends, lost and stolen certificates, changes of legal or dividend addresses, and other matters relating to registered stockholder status should be addressed to:

The Bank of New York
ADR Shareholders Relations
P.O. Box 11258
Church Street Station
New York, New York 10286-1258
Tel. : +1 610-312-5315 (International callers)
1-888-BNY-ADRs (Toll Free within USA)
E-mail : shareowners@bankofny.com

PT EDI Indonesia
Wisma SMR 10th Fl.
Jl. Yos Sudarso Kav. 89, Jakarta 14350, Indonesia
Tel. : (62-21) 6505 829, 6521 010
Fax. : (62-21) 6505 987

### Annual General Meeting of Shareholders

The 2003 Indosat Annual General Meeting of Shareholders will take place on June 26, 2003 at Assembly Hall, Plaza Bapindo, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190, Indonesia.

## OFFICE ADDRESSES AND CUSTOMER SERVICES

**Head Office**
PT Indonesian Satellite Corporation Tbk
Jl. Medan Merdeka Barat No. 21
Jakarta, Indonesia
Tel. : (62-21) 30003001, 30003002
Fax : (62-21) 380 4045, 381 2617

**Branch Offices**

**Jakarta Region Division & Indosat One Gallery**
Wisma Antara
Jl. Medan Merdeka Selatan No. 17
Jakarta, Indonesia
Tel. : (62-21) 352 4004
Fax : (62-21) 385 3201

**West Region Division**
Jl. Perintis Kemerdekaan No. 39
Medan 20236, Indonesia
Tel. : (62-61) 4567 001
Fax : (62-61) 4572 200, 4528 384

**East Region Division**
Jl. Kayoon No. 72
Surabaya 60271, Indonesia
Tel. : (62-31) 5455 001
Fax : (62-31) 5456 001

**Customer Service Batam**
Jl. Dr. Soetomo No.1
Sekupang - Batam 29422
Indonesia
Tel. : (62-778) 321 001
Fax : (62-778) 322 133

**Customer Service Bandung**
Graha Bumiputera Ground Fl.
Jl. Asia Afrika 141-147
Bandung 40111, Indonesia
Tel. : (62-22) 4204 001
Fax : (62-22) 4200 001

**Customer Service Semarang**
Gedung Grinatha (BPD), 2nd Fl.
Jl. Pemuda No. 142
Semarang 50132, Indonesia
Tel. : (62- 24) 3569 001
Fax : (62- 24) 3556 001

**Customer Service Bali**
Jl. Raya By Pass Ngurah Rai No. 88
Kuta 80361, Bali, Indonesia
Tel. : (62-361) 766 001
Fax : (62-361) 767 001

**Business Unit Offices**

**PT Satelit Palapa Indonesia**
Jl. Daan Mogot KM 11
Jakarta, Indonesia
Tel. : (62-21) 5438 7044
Fax : (62-21) 5438 7221

**PT Indosat Multi Media Mobile**
Menara BDN 14, 22-24th Fl.
Jl. MH Thamrin No. 5
Jakarta 10340, Indonesia
Tel. : (62-21) 230 2211
Fax : (62-21) 3983 9334

**PT Indosat Mega Media**
Jl. Kebagusan Raya No. 36
Pasar Minggu
Jakarta 12550, Indonesia
Tel. : (62-21) 7854 6969
Fax : (62-21) 7883 0983

**PT Aplikanusa Lintasarta**
Menara Thamrin 12th Fl.
Jl. MH Thamrin Kav. 3,
Jakarta 10340, Indonesia
Tel. : (62-21) 230 2345
Fax : (62-21) 230 3883

**PT Sisindosat**
Graha Sisindosat
Jl. Panataran No. 2
Jakarta 10320, Indonesia
Tel. : (62-21) 3190 0717/687
Fax : (62-21) 3190 0704

INDOSAT

Jl. Medan Merdeka Barat No.21
Jakarta 10110, Indonesia
Tel. : [62-21] 3000 3001, 3000 3002
Fax. : [62-21] 380 4045, 381 2617
E-mail : investor@indosat.com
www.indosat.com

Maximark